

Gingerly, Mitterrand and Kohl Edge Toward a Joint Defense

By Barry James
International Herald Tribune
PARIS — Drawn together by their common fears about European security following the anticipated departure of U.S. medium-range nuclear missiles, President François Mitterrand of France and Chancellor Helmut Kohl of West Germany are moving closer on defense cooperation.

Mr. Mitterrand said Saturday that he approved of a proposal made by Mr. Kohl on Friday night to establish an experimental French-German army brigade.

But he added that there were many historical obstacles to such close military cooperation.

The biggest of these is the fact that West Germany is a fully integrated member of the North Atlantic Treaty Organization, while France, although a member of the alliance, is outside its military command.

The French defense minister, André Giraud, expressed his support Sunday for the brigade but cautioned that the command of such a unit should be "alongside the integrated command structure of NATO, and not subordinate to it."

The minister spoke after meeting with his West German counterpart, Manfred Wörner, on Saturday at the Paris Air Show.

The prospect of a combined fighting unit formed by two countries that have fought three wars in the past 117 years underlined a common feeling that Europe should make stronger efforts to defend itself if U.S. cruise and Pershing-2 missiles are withdrawn as part of an agreement with the Soviet Union.

Such an accord would leave a gap on the NATO side between short-range nuclear weapons and the U.S. strategic arsenal.

The disarmament proposals have touched off fears in Western Europe of a "decoupling" of American and European nuclear defenses and focused attention on possibilities for a stronger "European pillar" for NATO.

Mr. Mitterrand and Mr. Kohl stopped far short of some recent proposals for closer French-German cooperation, including a call to extend French nuclear deterrence to the defense of West Germany.

For example, Helmut Schmidt, the former West German chancellor, said in Paris a week ago that he would like to see European conventional forces combined under a French supreme commander, in alliance with the United States and Canada, in order to stress the European component of NATO.

A similar idea was put forward recently by General Gerde Schmeckle, a former deputy supreme commander of allied forces in Europe.

"NATO ought to offer France the opportunity of having the first European generalissimo," he said. "Perhaps the time has now come to do it, to show that Europe is responsible for its own defense."

In practical terms, a French commander would overcome some of the problems caused by France's

U.S. Offered Nevada Site For French Nuclear Tests

By Michael Richardson
International Herald Tribune
SINGAPORE — In an effort to reduce anti-nuclear sentiment among South Pacific countries, the United States secretly offered to let France use nuclear test facilities in Nevada as an alternative to French testing at Mururoa atoll, U.S. and Australian officials have disclosed.

France rejected the offer of access to the U.S. test range that Britain accepted many years ago, the officials said, but the offer remained open.

A U.S. official said Friday that the approach to France had been made discreetly and informally "a couple of times over the years, most recently about a year ago."

"It was more in the nature of a private sounding to let the French

U.S. Offered Nevada Site For French Nuclear Tests

know that if they wanted a way out of the South Pacific we could provide it," he said.

Australian officials said Washington had made the offer because some countries in the region that

One percent of Soviet nuclear arms could destroy the U.S. economy, study says. Page 2.



Rites and Arrests at Stonehenge

A demonstrator being led away from the prehistoric circle of stones at Stonehenge in England, one of about 40 persons arrested on Sunday trying to break through police lines during summer solstice ceremonies. Druids performed the sunrise rites, left, as about 500 people watched from outside a fence.

Seoul Considers Reforms

U.S. Sending Aide to Press For Elections

By Lena Sun
Washington Post Service
SEOUL — South Korea's governing party met Sunday to consider what concessions it could offer the opposition to defuse political tensions that have fueled 11 days of street protests.

A parliamentary caucus of the Democratic Justice Party outlined a package of what it described as democratization reforms that were to be presented Monday to President Chun Doo Hwan, the state radio said.

[A U.S. assistant secretary of state being sent to Seoul said that the United States would press the government to hold open elections and resume negotiations with opposition leaders.]

No details of the parliamentary caucus negotiations were provided, but party sources quoted in South Korean newspapers said the measures would include a lenient policy for those demonstrators arrested in the anti-government rallies that began June 10, and the release of an opposition leader, Kim Dae Jung, from a two-month house arrest.

The discussions Sunday were presided over by the Democratic Justice Party chairman, Roh Tae Woo, who has met with the heads of two minor opposition parties, but has been unsuccessful in meeting with Kim Young Sam, the leader of the main opposition party, the Reunification Democratic Party. The opposition party has set conditions for talks.

The streets of the capital, meanwhile, were relatively quiet Sunday. The narrow alleys in many parts of central Seoul that have been the battleground of intense clashes between student demonstrators and police were filled with shoppers, enjoying the sunny weather and the reduced presence of police.

Street vendors who have lost business because of the clashes were out in force throughout the city, selling everything from cotton candy to costume jewelry.

But there were reports from the provinces of violent demonstrations continuing in Pusan, Kwangju and Taegu.

In the southern port of Pusan, the country's second-largest city, where there have been large anti-government rallies, several thousand students burned a police post and marched for about three miles (about five kilometers) before the police confronted them with volleys of tear gas, witnesses said.

Reuters reported that at least 800 protesters in Pusan were arrested Sunday.

In one disturbance in Seoul on

Kiosk

Senna Wins Detroit Prix

DETROIT (Reuters) — Ayrton Senna of Brazil, driving a Lotus, won the Detroit Formula 1 Grand Prix motor race Sunday.

Nelson Piquet of Brazil was second in a Williams, with the reigning world champion, Alain Prost of France, third in a McLaren. Gerhard Berger of Austria finished fourth in a Ferrari, with Nigel Mansell of Britain fifth in a Williams and Eddie Cheever of the United States sixth in an Arrows.



The Rafale, a twin-engine warplane, has been chosen by France to equip its air force and navy by 1996. Page 2.

GENERAL NEWS

- ETA admitted bombing a Barcelona supermarket; 70,000 hold a protest. Page 6.
- The U.S. Congress is considering bills that would deeply affect trade and domestic concerns. Page 3.
- SPORTS
 - Tom Watson held the lead going into Sunday's final round of the U.S. Open golf tournament. Page 21.
- BUSINESS/FINANCE
 - Ivan Bosky's once-vast financial empire is being dismantled. Page 15.
 - Apartheid activists are pressuring non-American companies in South Africa. Page 15.

Money's New Capital

Japan has emerged as the world's largest creditor nation and its banks and security houses have become major players on international capital markets. A Special Financial Report. Pages 7-13.



TOMORROW

The factory of the future, compact disc video and biodegradable plastics among the highlights of a new Herald Tribune feature, Technology Quarterly, beginning in tomorrow's edition.

Some Loyalists Oppose Extended Pinochet Rule

By Juan De Onis
International Herald Tribune
SANTIAGO — Resistance is growing in Chile to President Augusto Pinochet's campaign to stay in power beyond 1989.

Armed forces and conservative political sectors that have been his loyal supporters since 1973 have joined the center and left parties in opposing General Pinochet's political ambitions.

The commanders of the Chilean Navy and Air Force, Admiral José Toribio Merino and General Fernando Matthei, who form part of the four-member military junta, distanced themselves publicly last week from General Pinochet's effort for a new eight-year term.

"The ideal presidential candidate for a continuation of the process begun by the armed forces," Admiral Merino said at a news conference, "would be a civilian, in his early fifties, who is backed by a national consensus."

"The armed forces," General Matthei said last week, "should not be involved in the electoral process. We must not be judge and party to the contest. Whoever runs should do so as a civilian and we will guarantee that the process is clean."

General Pinochet, 70, who is still on active duty, has publicly invoked the support of the army. A ceremony at the Infantry School became a political event last week when he was presented with a book containing 100,000 signatures supporting his staying in power beyond 1989.

Orders have gone out from the Ministry of Interior, where General Pinochet has placed army officers in important positions, to Chile's 340 mayors and 50 provincial governors, many of whom are military officers, to mobilize support for his government through jobs, social programs and attention to local problems.

These signs of turning the army and the government bureaucracy into a political machine have drawn strong criticism, even from staunch conservative organs. The Santiago newspaper *El Mercurio* said in an editorial that the military must remain impartial.

Under the constitution approved in 1980, the four-man military junta nominates the presidential candidate whose name would be submitted to a national plebiscite next year. Only if the junta's candidate is rejected by a majority "no" vote would there be free, open elections a year later.

Internal disaffection with General Pinochet is fed by deteriorating Chilean relations with the United States and by renewed criticism from the Roman Catholic Church of violent methods employed by government security forces, which



Augusto Pinochet

restrictions on Chile, but the Reagan administration earlier rejected such a punitive course.

General Pinochet's refusal to allow General Manuel Contreras Sepúlveda and Lieutenant Colonel Pedro Espinoza to be tried in the United States was announced Wednesday only hours after Chile signed a \$10.6 billion agreement in New York with 405 creditor banks that refinanced Chile's foreign debt.

The agreement postponed about \$450 million in interest payments until the end of next year.

The refinancing agreement was essential for General Pinochet's election strategy of running on a record of economic recovery and record of economic recovery and trade

U.S. Aide Reports East-West Effort In the UN to Devise Gulf Peace Plan

The Associated Press
WASHINGTON — A State Department official said Sunday that the United States, the Soviet Union and other members of the United Nations Security Council are working on a plan to end the Gulf war.

"We're working in the Security Council to engage the Russians and the other permanent members in a call for a cease-fire and return to boundaries, exchange of prisoners, other arrangements backed by mandatory sanctions, and we've found, to our surprise, that has elicited the support of all the permanent members," Undersecretary of State Michael H. Armacost said on a CBS News television program.

"That is the first resolution calling for a cease-fire," he said. "The question now is whether we can negotiate agreement on mandatory sanctions."

Mr. Armacost said that the United States, the Soviet Union and the other permanent members — Britain, France and China — had been discussing a peace plan "for several months in New York."

The United States and the Soviet Union have been involved in the effort because "we share at least temporarily an interest in the region, an interest in preventing an Iranian victory in the Gulf war," Mr. Armacost said.

He emphasized that the talks did not include naval protection arrangements in the Gulf.

Mr. Armacost said U.S. officials working on the plan had found the Soviet Union to be "surprisingly cooperative."

"They don't wish to see a war which could end with Iran prevailing, with the stimulus that gives to Islamic fundamentalism and the threat it poses to their own Moslem population in Central Asia," he said.

Mr. Armacost reiterated that U.S. interests in the Gulf remain the same, with the White House hoping to limit the Soviet Union's role there.

■ Iraqi Jets Hit Ship
Iraq has broken a monthlong lull in the Gulf shipping war, announcing that its jets struck a large naval target, the usual reference for a

Soviet Tests Multicandidate Ballots In Local Council, Judicial Elections

By Celestine Bohlen
Washington Post Service
MOSCOW — The Soviet Union held its first experiment with multicandidate balloting on Sunday in scattered districts during local elections that also tested other themes of Mikhail S. Gorbachev's campaign for "democratization."

Although voters in only 5 percent of election districts across the country were given a choice at the ballot box, the elections of local councils and district court judges took place under conditions that

the official press hailed as a major break with past practices.

The most significant experiment involved multicandidate lists, a practice already in place in several East European countries.

The experiment, announced in April as a consequence of political reforms pressed by Mr. Gorbachev, took place in 76 districts around the country. No multicandidate list was offered in Moscow, and the only one in the Moscow region lies in an area closed to foreigners.

More than two million candidates are running for seats on

about 50,000 district, city and rural councils, which handle day-to-day local business such as housing, public transport and medical care.

In the experimental areas, election districts were consolidated, and voters were able to choose from a number of candidates that exceeded the number of positions. But even the losers will have a role. Those who get at least 50 percent of the vote will be allowed to participate in local councils but not vote.

At voting district 5 in Moscow's Krasnopresnenskiy region, where Mr. Gorbachev and his wife, Raisa, voted, Tamara Zaitkova, the election committee chairwoman, said that changes in procedures had made the candidates more accountable.

Only one name for each office was on the ballots given to the 1,850 voters in the district, but during the nominating stage, two or three names were presented to the "work collectives," charged with choosing the candidates, she said.

"Before, it was always one," she said. "As a result, this time, we are seeing new people, and younger people."

According to official predictions, the election will result in an 80 percent turnover on the 800-member Moscow city council. Sixty percent of the city's 9,970 deputies on regional councils will be changed, according to Miss Zaitkova.

In Moscow, city officials have pushed candidates to meet with voters, not only in big meeting halls, but in courtyards, and to organize "meet-the-candidate" gatherings.

"Now the voter is able to take the candidate by the arm and take him home, show him poor facilities for children, repair problems, whatever," Miss Zaitkova said. "Then later, he can say, 'You saw this with your own eyes. What is your platform?'"

She said "it is not always easy to

Belgian Village Turns a Page to Economic Rebirth



Browsers checking the latest titles outside bookstores in revitalized Redu, Belgium.

By Peter Maass
International Herald Tribune
REDU, Belgium — Like other farming communities in Western Europe, this quaint village in the heart of the Ardennes has a stone church, a modest city hall and a small school. But Redu, population 450, is a bit different. It also has 26 bookstores and a booming local economy.

Until recently, Redu faced the same kind of economic collapse that has threatened farm towns in other European countries. But rather than wither away, Redu bet its future on becoming a center for buying and selling used books. The gamble has paid off, and Redu has found a way to avoid extinction.

Beginning in 1984, some residents opened bookstores of their own, and farmers rented abandoned stables to book entrepreneurs, who renovated the wood structures and set up shop. Even part of the town's school building was rented out and turned into bookstores.

"This has created jobs and it has allowed houses to be renovated," says Etienne Alexandre, a burly forest ranger in Redu who opened a

store specializing in wilderness books. "The village is living again."

Last year, an estimated 120,000 people came to buy or sell books in Redu, where each store has a specialty. For example, one shop stocks art books, another offers books on history, and still another focuses on astronomy. Most of the books are in French, though English, German and Dutch are well represented.

Although a large number of tourists visit Redu, many of the stores do business with professional and amateur collectors and U.S. universities. Buyers from Japan have even shown up to poke around, according to Noel Anselot, who helped organize Redu's transformation.

"It succeeded because it was a crazy idea," says Mr. Anselot, a retired businessman and amateur book collector. "Nobody would have ever thought a tiny village in the Ardennes could do this. This village was dead five years ago. There was only one store, and it was ready to close."

The genesis of Redu's turnaround can be traced to the Welsh town of Hvy, on the River Wye, which itself staved off economic

Belgian Village Turns a Page to Economic Rebirth

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Moscow Could Destroy U.S. Economy With 1% Of N-Arms, Study Says

By William J. Broad
New York Times Service

NEW YORK — In a challenge to the U.S. government's position on the long-term effects of nuclear war, a study concludes that a limited attack on the United States, involving only 1 percent of the Soviet strategic nuclear arsenal, could set off a collapse of the U.S. economy that would last decades.

U.S. officials say that the study is flawed and that recovery from even large attacks could take place in years, not decades.

The study, by the Massachusetts Institute of Technology, said an attack aimed only at liquid fuels and their distribution points could cripple transportation, energy production and primary industries, damaging the U.S. economy so thoroughly that most of the population would starve in months.

The survivors, it said, would be reduced to "near-medieval levels of existence" for decades.

The study added, however, that the Soviet Union is even more vulnerable.

The study was based on four years of computer simulations of nuclear attacks and their consequences. The computer instructions used were a modification of a model originally developed for the Federal Emergency Management Agency, which plans relief measures for war and natural disasters.

The prevailing government view is based more on experts' analysis than on computer models.

Kosta Tsipis, senior author of the study and director of MIT's Program in Science and Technology for International Security, said:

"The usual assumption is that the economy recovers. But this program shows it will not recover even 25 to 30 years after an attack."

Officials with the federal agency faulted the MIT study. Paul K. Krueger, the agency's assistant associate director for mobilization resources, said that he had not seen the study but that the underlying set of computer instructions, supplied to the agency in 1980 by a government contractor, was abandoned in 1984 after "a lot of criticism from other government departments that it was unrealistic."

Mr. Tsipis said the computer model had been tested extensively for accuracy at MIT. He said the government had abandoned the model because its results conflicted with the government's public positions. Mr. Krueger vigorously denied this.

The 136-page study reached these conclusions:

• The economy would be unable to "shake off" the effects of an attack on petroleum supplies. At best the nation could regain about a third of its productivity over a quarter century.

• The Soviet Union would be no better off than the United States and could be more vulnerable to long-lasting effects from a nuclear attack because its petroleum industry is more concentrated.

• The superpowers could achieve the goal of deterring attacks with drastically fewer nuclear arms.

• President Ronald Reagan's plan for a defense against enemy missiles might not protect the nation from lasting economic collapse even if the defense prevented 99 percent of incoming warheads from reaching their targets.

• Civil defense measures would be largely futile.



President Hissène Habré at a news conference after talks with President Ronald Reagan.

Habré Warns of Further Threats

WASHINGTON — President Ronald Reagan has hailed Chad's defeat of what he called "outlaw" Libyan forces, but he said President Hissène Habré had warned that Chad still faces a threat.

Libya's intervention in northern Chad and the defeat of its

forces in March by Mr. Habré's fighters was at the top of the agenda of White House talks Friday, as the Chadian president began a five-day official visit to Washington.

After their talks, Mr. Reagan pledged to continue "an appropriate level of security assistance" to Chad. "Unfortunately,

Chad and neighboring countries must remain vigilant against new threats," he said, "but Chad now knows it can count on its friends."

Mr. Habré said Chad "must pursue its fight in order to put to an end once and for all encroachments upon our freedom and in order to live in peace."

Chirac Says France Will Build Own Warplane

By Edward Cody
Washington Post Service

PARIS — Prime Minister Jacques Chirac has declared that France will develop and produce its own advanced warplane, the Rafale, to equip its air force and navy by 1996.

Mr. Chirac's announcement Saturday at the Paris Air Show appeared to lay to rest doubts in the Defense Ministry about the \$30-billion Rafale project, a delta-winged multipurpose plane conceived by France's slings, Avions Marcel Dassault-Breguet Aviation company.

The French decision means that U.S. allies in Europe will be developing two competing warplanes in an era when defense experts increasingly have urged pooled aircraft research and production to reduce cost and when political leaders have called for new steps to integrate European defense production.

Britain, West Germany, Italy and Spain have agreed to jointly develop an advanced fighter.

In a bow to European unity, however, Mr. Chirac urged cooperation in joint development of electronic components for both of the airplanes.

Defense Minister André Guitard said France's needs for the Rafale would reach at least 330 aircraft to replace the Etendard, Super-Etendard, Crusader, Jaguar and, later, the Mirage into the next century.

France's navy, however, has insisted that its Crusader fighters must be replaced by 1993 because of their age and extra stress from aircraft-carrier takeoffs and landings. The date is three years ahead of the Rafale's schedule for entering service.

Some Defense Ministry officials have suggested buying U.S. F-18 aircraft for the navy until a naval version of the Rafale can be produced.

WORLD BRIEFS

Pindling Wins 6th Term in Bahamas

NASSAU, Bahamas (Reuters) — Prime Minister Lynden O. Pindling has won a sixth term in the first general election here since a drug scandal hit his Progressive Liberal Party.

The state-run Radio Bahamas said the results of Friday's voting showed the party had captured 29 seats of the 49 seats in the House of Assembly, giving Mr. Pindling another five-year term. The opposition Free National Movement, which had confronted Mr. Pindling's party with its toughest challenge in two decades, took 13 seats. Five seats remained undecided.

Deputy Prime Minister Clement Maynard declared victory for the Progressive Liberal Party, saying the voters had soundly repudiated opposition charges of corruption by the governing party. A commission of inquiry reported in 1984 that drug money had tainted Bahamian society, finding its way into the pockets of Mr. Pindling's cabinet ministers and close associates, although the panel exonerated Mr. Pindling.

Reagan Vetoes Curbs on Broadcasters

WASHINGTON (AP) — President Reagan has vetoed legislation to make permanent the "Fairness Doctrine," the federal policy established in 1949 that requires broadcasting stations to present opposing views on controversial issues.

In doing so, Mr. Reagan sided with the Federal Communications Commission, which contended that the doctrine was constitutionally suspect, and radio and television broadcasters who complained that it infringed on their First Amendment rights and editorial freedom.

The doctrine was established by the Federal Communications Commission, but the commission has been studying the possibility of scrapping it, and a U.S. appeals court ruled in 1986 that it was not a law and could be repealed by the FCC.

Soviet Hints at Releasing Pilot Soon

BONN (AP) — Mathias Rust could be released from a Soviet prison by early July, but first he needs to be clearer about why he flew a small plane from Helsinki to Moscow's Red Square on May 28, a Soviet official told Radio Luxembourg on Sunday.

Valentin Falin, head of the Novosti news agency, said he could not rule out the possibility that Mr. Rust, 19, will be allowed to return to his home in West Germany by July 6, when the West German president, Richard von Weizsäcker, visits Moscow.

Mr. Falin said that Mr. Rust "makes various statements, unfortunately, and that doesn't make the situation any easier." He continued: "I would like to hope that his return will be possible. It doesn't just depend on the Soviet side but above all on Rust himself and several accompanying circumstances."



Mathias Rust

Panama Extends State of Emergency

PANAMA CITY (Reuters) — Panama's National Assembly has approved a presidential decree ordering an indefinite extension of the nationwide state of emergency.

The decree issued Saturday claimed that the extension was necessary as a consequence of systematic calls to sedition and civil disobedience. Anti-government protesters called last week for the removal of General Manuel Antonio Noriega, Panama's military chief and de facto ruler.

Shultz Assails Remarks by Rogers

SYDNEY (AP) — The U.S. secretary of state, George P. Shultz, has labeled as "entirely incorrect" and "ridiculous" the recent statements by General Bernard W. Rogers, the outgoing military commander of NATO, that criticized the Reagan administration as rushing toward an arms control agreement with the Soviet Union.

Mr. Shultz was reacting Sunday to comments published in The Washington Post in which General Rogers accused the administration of pressuring Western Europe to put aside its reservations about an accord on medium-range missiles.

Speaking with reporters en route from Singapore, Mr. Shultz called the NATO military commander "a general with a lot of experience" whose adverse views might affect congressional reaction to any eventual arms accord on the removal of U.S. and Soviet medium-range missiles from Europe. The general, Mr. Shultz said, was "way out of line" in making the remarks. The general's NATO command ends Friday.

TRAVEL UPDATE

Thousands of West German motorists returning from holidays in Italy were delayed over the weekend by road work leading to the Brenner pass route into Austria.

Two 747 jets were heavily damaged in a collision on the tarmac of Vienna's Schwechat airport on Sunday. The airport's tarmac is under construction.

Trans-Atlantic flights across Britain were back to normal on Sunday after the four-hour breakdown of an air traffic control computer on the western Scottish coast on Saturday. About 50 flights from Amsterdam, Brussels, Paris and London were affected.

The temporary loss of radar on Friday in an area from New England to the Great Lakes posed no hazard for air travelers in the United States, a Federal Aviation Administration spokesman said. Air traffic controllers operated without radar for six minutes due to a computer outage. (UPI)

This Week's Holidays

Banking hours and government services will be closed or curtailed in the following countries this week because of national and religious holidays:

MONDAY: Colombia, Venezuela, South Yemen.

TUESDAY: Luxembourg, Norway.

WEDNESDAY: Andorra, Macao, Peru, Venezuela, Zaire.

THURSDAY: Madagascar, Mozambique.

FRIDAY: Madagascar, Somalia.

SATURDAY: Djibouti.

SUNDAY: Djibouti.

Source: Morgan Guaranty Trust Co., Ramsey.

In Australia, Hawke Mutes Nuclear Issue

By Keith B. Richburg
Washington Post Service

SYDNEY — Three years ago, when Australia held its last national elections, U.S. security interests in this part of the world seemed increasingly under siege by a highly visible anti-nuclear movement.

Today, Australia once again is in the midst of a national election, but the worst fears of U.S. officials have yet to be realized.

Under the leadership of Prime Minister Bob Hawke, a blunt, former union leader with a mastery for maintaining the political middle ground, Australia's Labor govern-

ment has proven itself more interested in staying in power than in promoting a more idealistic foreign policy platform.

"There's no doubt there's been a swing to the right," said Peter Jones, a research aide to the Nuclear Disarmament Party's only elected member of Parliament.

After its peak during the 1984 campaign, he said, the anti-nuclear lobby "hasn't had any impact on the Australian public."

This year, the anti-nuclear issue has raised barely a whisper. The Nuclear Disarmament Party, which drew about 500,000 primary

votes three years ago among an electorate of nine million, no longer exists.

The anti-nuclear policies of the Labor government in New Zealand caused a deterioration of that country's relations with the United States.

In August 1986, after Prime Minister David Lange of New Zealand pressed ahead with his party's promise to prohibit port calls by nuclear-armed and nuclear-powered ships, the United States suspended its military obligations to New Zealand under the ANZUS defense treaty.

Secretary of State George P. Shultz and Defense Secretary Caspar W. Weinberger are in Australia for an annual series of meetings on defense and foreign policy issues with Australian officials that begin Monday.

The meetings are likely to be cordial because relations between the conservative Republican administration in Washington and the Labor government in Canberra have remained on firm and friendly ground.

Anti-nuclear activists say they now recognize that Australians overwhelmingly support the security relationship with the United States. According to a poll by the Morgan Research Center, 75 percent of Australians favored maintaining the defense alliance with the United States.

The decline of the anti-nuclear movement in Australia is due largely to the deft political maneuvering of Mr. Hawke, who has managed to defuse the issue. Through some careful backpedaling on his party's positions, Mr. Hawke has kept his American allies happy and his anti-nuclear credentials intact.

He has held steadfastly to his position against Australia ever acquiring its own nuclear weapons. He is the most outspoken critic in the region of French nuclear testing in the Pacific. And he has led the charge for declaring the South Pacific a nuclear-free zone.

When the Reagan administration offended Australia twice in 1986 with decisions to subsidize U.S. wheat sales to the Soviet Union and to sell surplus sugar to China, Mr. Hawke protested vigorously. But he resisted calls from some farmers' groups, who wanted to link American trade practices to the continued presence of U.S. military bases.

As a result of pulling his party to the right, both on foreign policy and economic issues, Mr. Hawke has angered and alienated Labor's once-dominant — but now insignificant — left wing.

But political analysts here say that Mr. Hawke largely has co-opted the conservative opposition, positioning himself to become the first Labor prime minister to win a third consecutive term. The elections are scheduled for July 11.

Bonn Minister Is Said to Oppose Extradition Plan

The Associated Press

HAMBURG — Justice Minister Hans Arnold Engelhard has decided to oppose extraditing to the United States a suspect in the 1985 hijacking of a Trans World Airlines flight to Beirut, a Hamburg newspaper said Sunday.

Well am Sonntag said that Mr. Engelhard did not favor the extradition of Mohammed Ali Hamadeh, a Lebanese man who was arrested Jan. 13 at the Frankfurt airport. The newspaper gave no sources for its report.

Mr. Hamadeh is wanted in the United States on charges of murder and air piracy in connection with the hijacking and the murder of a passenger, Robert Stethem, a U.S. Navy driver.

West German officials have been hesitant to approve the extradition out of concern for the lives of two West Germans being held hostage in Beirut. Their captives have demanded Mr. Hamadeh's freedom.

Mr. Engelhard's opinion is expected to be influential as the cabinet decides the matter Wednesday.

2 Flee From East Germany

Reuters

BERLIN — Two young East Germans fled Saturday night over the Berlin Wall to West Berlin, police said. The youths scaled the wall and crossed a prohibited zone.

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| Luxembourg L.Fr. | 11,500 | 6,300 | 3,400 | L.Fr. 18.41 | L.Fr. 6,700 |
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North Faces Deadline to Give Papers To Congress

By Walter Pincus
and Dan Morgan
Washington Post Service

WASHINGTON — Congressional investigators have ordered Lieutenant Colonel Oliver North to deliver documents, including personal notebooks, relating to his activities in the Iran-contra operations by Tuesday morning or face a possible criminal charge of contempt of Congress, sources have said.

The subpoena represented a new step in a sharpening legal skirmish that will determine whether Colonel North ever testifies in public before the House and Senate select committees looking into the Iran-contra affair.

The dismissed National Security Council aide is a central figure in the affair. The latest subpoena was said to have been delivered Thursday to Colonel North's attorney, Brendan V. Sullivan Jr.

The skirmishing began Wednesday when Mr. Sullivan informed committee lawyers that Colonel North, a marine, would not comply with an initial subpoena to report for preliminary questioning in private the next day or provide requested documents. Mr. Sullivan asked concerns over legal "due process."

At a meeting Thursday night with Mr. Sullivan, the chief counsel for the Senate and House panels, Arthur L. Liman and John W. Nields Jr., offered a compromise aimed at meeting some of Mr. Sullivan's concerns, but they failed to resolve their differences, sources said.

On Friday, the Senate select committee heard Mr. Liman's report and ruled out further compromise.

The two committees earlier had voted to compel Colonel North's testimony under a grant of limited immunity from prosecution.

On Wednesday, however, Mr. Sullivan argued that the initial subpoena for documents was too broad and that the committee's informal, closed depositions exposed



Oliver North leaving home, followed by a family dog.

his client to risks not covered by the immunity statute.

The subpoena for documents that Colonel North is required to answer, Tuesday called only for "relevant" materials, a source said, and is less broad than the earlier request.

The two committee staffs are particularly eager to obtain 10 spiral notebooks that Colonel North's former secretary, Evelyn Hall, testified last week that she saw in Mr. Sullivan's office on Nov. 28.

She said Colonel North wrote up his daily activities in similar notebooks.

Some committee lawyers say Mr. Sullivan has no intention of allowing Colonel North to testify and that his actions are more than delaying tactics. They said Mr. Sullivan may have decided that the risks of his client's appearing, even under a grant of immunity, outweigh the bad publicity and penalties if he is found guilty of criminal contempt of Congress.

One risk of testifying is perjury, the most common charge brought against witnesses with immunity. Immunity gives no legal protection for a witness found to have lied under oath.

The two committees have set an early August deadline for finishing public hearings. One prominent Washington criminal lawyer suggested that Mr. Sullivan may want to delay Colonel North's appearance long enough so that any criminal indictment obtained by the independent counsel, Lawrence E. Walsh, would have already been issued.

Once indicted, this lawyer said, Colonel North would have a strong argument that public testimony would get so much publicity that no jury could be found that could give him a fair trial.

Mr. Walsh said he sees no reason to seek indictments before the committees end their hearings in August.

U.S. Trade Bills: None Dare Say 'Protectionism'

By Clyde H. Farnsworth
New York Times Service

WASHINGTON — The U.S. Congress is considering legislation that would deeply affect both the future course of trade policy and two basic economic facts of life: jobs and the cost of living.

The Senate is expected to take up

NEWS ANALYSIS

a trade bill this week in what many consider the most protectionist climate since the 1930s, although few in Congress breathe the word, preferring to call for "fair trade."

Both that bill and the one the House passed in April are aimed at opening foreign markets to more chemicals, food, computers and other goods made in the United States. But some provisions in both would also close U.S. markets to imports.

Although they use different formulas, the two pieces of legislation share an underlying philosophy: that enormous U.S. trade deficits result at least partly from unfair trade barriers of other countries, that these barriers must be eliminated and that if they are not, automatic mechanisms should be in place to block the countries' shipments to the United States.

That last idea, if enacted, is almost certain to touch off a presidential veto.

Other countries are expressing anxiety and increasing resentment. "Is Congress leveling the playing field or bringing down the stadium roof?" asked Allan E. Gottlieb, the Canadian ambassador. Recalling

the foreign retaliation against the protectionist Smoot-Hawley Tariff Act of 1930, which helped trigger the Depression, he said, "Enactment of some of the current proposals would unleash an unpredictable and uncontrollable chain of events."

Sir Roy Denman, head of the Washington delegation of the Commission of the European Community, observed, "Unfair trade practices generally turn out to be what the other fellow does — never what one does oneself."

For two consecutive years, the community has published lists of what it considers to be unfair trade barriers on the U.S. side. Its latest report, in April, cited more than 30 measures.

Only last week a panel of the General Agreement on Tariffs and Trade, which governs most world trade, reinforced the commission's assessment of a U.S. tax on petroleum that goes to the "Superfund" toxic waste cleanup program. The Superfund tax is higher for imported than for domestic oil. The panel found the tax to be a violation of the GATT free trade charter and called on the Reagan administration to make changes.

Most analysts say the public's perception of trade issues is confused and ambivalent. That is because trade cuts across jobs and the cost of living in conflicting ways.

Opinion polls show that when people think their economic security is threatened by imports, they react in a protectionist fashion. On the other hand, when they are reminded that protectionism means higher prices and limits on their

choice of consumer goods, they come down more for free trade.

Nine Senate committees have put together a mammoth piece of legislation with hundreds of provisions, although the Reagan administration — which last week issued a 30-page list of "objectionable" provisions — wants the Senate to

such trade and sets forth procedures to eliminate it through negotiations or retaliation. Japan is specifically named as a target of this provision.

Presidential discretion. The Senate bill would virtually eliminate a president's ability to consider national economic or foreign

When people think economic security is threatened, they react in a protectionist fashion. Reminded that protectionism means higher prices and limits on choice, they come down more for free trade.

consider just one of the bills, produced by the Finance Committee, as the main trade measure.

In any case, scores of amendments are expected to be introduced on the Senate floor. The more hotly debated provisions include:

• Unfair trade. The administration would identify foreign trade barriers that are "unjustifiable," "unreasonable" or "discriminatory." If the offending countries did not stop the practices, the United States would retaliate. Denial of "worker rights" or adoption of "export targeting," a government plan of coordinated action to benefit exporters, would be among causes for retaliation.

• Adversarial trade. A new concept in trade law, it is defined as a "consistent pattern of barriers and market-distorting practices." The bill requires the administration to identify countries that practice

policy interests when an industry is petitioning for protection against an inundation of imports.

Under present law, the U.S. International Trade Commission, a federal fact-finding agency, makes a recommendation that the president can accept, modify or reject. Under the Senate bill, the commission's recommendation would become mandatory.

• Surpluses. The United States would be required to retaliate against trading partners that have large trade surpluses unless the surpluses are reduced by fixed amounts every year.

The House has already passed such an amendment, proposed by a Democratic presidential aspirant, Representative Richard A. Gephardt of Missouri. The Senate version, to be introduced by Senator Donald W. Riegle Jr., a Michigan Democrat, would require the administration to estimate how much

of a country's surplus with the United States reflects trade barriers.

If the country failed to increase its imports from the United States by one-third of that amount for each of three years, the United States would impose import restrictions.

• Dumping. Laws already on the books establish mechanisms for imposing import duties to offset the advantage gained by foreign countries that subsidize exports or that sell products in the United States at less than fair value. Both the House and Senate bills would make it easier for companies to invoke these laws and get higher protective duties.

The Reagan administration has taken strong exception to the Senate bill, as it did to that of the House. In either form, the legislation would doubtless be vetoed.

But some analysts say they believe that the legislation could end up being only mildly protectionist. That is what occurred with the Trade Act of 1984. Both chambers approved protectionist provisions that were neutralized in conference.

Clayton K. Yeutter, the U.S. trade representative, said it was possible to combine the two bills in such a way as to produce acceptable legislation.

"Where we are troubled by the Senate bill, the House bill is much more acceptable to us," and vice versa, he said at a U.S. Chamber of Commerce meeting earlier this month. "There is a chance of picking the best of both and putting them together."

AMA Committee Rejects U.S. Call For Broad Mandatory AIDS Testing

By Michael Specter
Washington Post Service

WASHINGTON — In its first attempt to influence public policy on containing the AIDS epidemic, the American Medical Association has issued a report rejecting wide use of mandatory testing and calling for tough new laws to protect the civil liberties of those who test positive for the AIDS virus.

The report, written by the medical group's board of trustees and issued Saturday, urges that a national policy on confronting the disease, acquired immune deficiency syndrome, be devised immediately.

It noted that the epidemic "is now more than six years old and the growing magnitude of the problem has been apparent for nearly that long."

The board said that plans by the Reagan administration to spend \$1 billion to fight AIDS in 1988 "will not be enough." It endorsed legislation introduced by Representative Henry A. Waxman, Democrat of California, to increase resources for voluntary testing and counseling.

The strong position taken by the American Medical Association, the largest and most powerful medical group in the United States, implicitly challenges the direction of the Reagan administration's policy on AIDS.

While the administration plans to appoint an advisory body on

AIDS, the medical organization wants to establish a commission with strong powers to develop a national policy and help implement it.

"If there is any real criticism of our system, it is simply that we have not devoted the necessary resources to fight this disease," said Dr. Lonnie Bristow, a board member who helped draft the policy, which the group's House of Delegates will vote on this week.

A White House spokesman, Don Howard, said administration officials had not yet seen the report, and he declined to comment.

Earlier this month, in his first major speech on AIDS, President Ronald Reagan called on the states to institute routine AIDS testing for marriage license applicants, jail inmates and those seeking treatment for drug abuse or sexually transmitted diseases.

While the American Medical Association trustees recommended mandatory AIDS testing of prisoners, immigrants and the military, as well as for blood and organ donors, they stopped short of adopting other administration goals.

Although the trustees emphasized that "mandatory national testing, at present should not be broadly extended," they called for routine voluntary testing at clinics for treatment of drug abuse and sexually transmitted diseases.

Such testing, they added, should be performed only with the informed consent of the subject, who would have the right to refuse.

The report also seeks a much wider education program, for both the public and health-care professionals. It urges that more money be spent on counseling for those who test positive and on training physicians.

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AMERICAN TOPICS

U.S. Business Schools Pull More Foreigners

Japanese middle managers, along with a growing number of other foreign students, are flocking to graduate business schools in the United States "in pursuit of the ultimate American business credential, an MBA" or master of business administration degree, The Washington Post reports.

"There is no small irony in their presence here," notes The Post, "because America's corporate management techniques are hardly the envy of the industrialized world. But American markets are, and the degree provides membership in the exclusive MBA club and a way to gain quick insight into American culture, consumer psychology and buying habits."

Charles Hickman of the American Assembly of Collegiate Schools of Business said foreigners "often don't come for what is taught in class but to make the connections and to learn the culture."

At the University of Virginia, graduate business applicants numbered 419 from 53 countries this year, compared with 98 two years ago. The story is similar at Harvard, Dartmouth, Tulane and the University of Pennsylvania.

Takashi Shigenori of Semitomo, Japan, is typical. He is 28, and his company is paying him not only \$50,000 to meet the costs of completing the MBA program at the University of Virginia but his salary as well.

The colleges welcome foreign students. "We want them for the sake of our American students," said Leslie Grayson of the University of Virginia. "It may be the only chance a nice Protestant preppy can find out what makes a guy like Shigenori tick."

disease, compared with 79 percent in 1982.

Restaurateurs in Beverly Hills, California, are getting around a ban on smoking in their establishments that took effect two months ago by redesigning large sections as bar areas. The law prohibits smoking in all restaurants except those in hotels. It also exempts bars that serve food. Some restaurants now allow smoking in all sections because the bar is in the middle of the dining room. "We don't know quite what to do about it," said Mayor Benjamin Stensbury Jr. "My attitude is one of dismay." He said the city attorney is looking into what constitutes a bar area.

The U.S. Senate has changed very little in the year since its proceedings began being televised. The Washington Post reports. The finding confounds predictions that TV coverage would lead to grandstanding, or that it would make the Senate more orderly and efficient. Quorum calls — a drawn-out form of taking attendance — have been cut by more than half, but that is about the only substantial change. The time spent on making speeches has been relatively constant. The Senate on television "has neither cooled nor heated the American people," said Robert C. Byrd, Democrat of West Virginia, the majority leader.

Notes About People



Rudolph W. Giuliani

New Yorkers tend not to expect much of taxi drivers. So Rudolph W. Giuliani, U.S. attorney for the Southern District of New York, was flabbergasted after he arrived at Washington National Airport to deliver a speech and tore his trousers on a protruding wire while getting into a taxi. The driver took him to a tailor, waited with him while repairs were made and then, unasked, offered to pay the bill. "I'm going to take him back to New York with me and ask the mayor to make him cab driver of the year," Mr. Giuliani said.

—ARTHUR HIGGEE

Angola Is Likely To Free U.S. Pilot Held for Spying

Washington Post Service

WASHINGTON — Angola is expected to release a captured American pilot in the next few days in an effort to help establish diplomatic relations with the United States, according to the Reverend Jesse L. Jackson and congressional sources.

The pilot, Joseph Longo of Greensburg, Pennsylvania, was shot down April 21 in a light aircraft over southern Angola. He was suspected of spying for South Africa, the official Angolan news agency said at the time.

The U.S. State Department said that Mr. Longo was ferrying a plane owned by an American company to South Africa and denied that Mr. Longo had ever been a U.S. government employee.

Mr. Jackson and several members of Congress had urged a high-level Angolan delegation visiting the United States to release Mr. Longo as a goodwill gesture.

48 Soldiers Killed

The National Union for the Total Independence of Angola claimed to have killed 48 soldiers in an attack on a government barracks in northern Angola on Thursday, Agence France-Presse reported from Lisbon.

New Army Chief for Maputo

United Press International

LISBON — General Antonio Hanna Thai has been named head of the Mozambican armed forces by President Joaquim Chissano as part of a major military reshuffle in Maputo, the Portuguese news agency Lusa reported Sunday.

Insurgents Kill 31 In Attack on Town, Turkey Reports

Reuters

ANKARA — Kurdish rebels killed 31 people, including 14 children, in their bloodiest attack in a three-year guerrilla war for autonomy, the Anatolian News Agency reported Sunday.

The attack occurred in the southeastern Turkish village of Pinarlik, near Mardin close to the Syrian border.

The report said the insurgents moved into the village about 10 P.M. Saturday night and used megaphones to order people to a central square. They then raked the area with automatic weapon fire and attacked three homes where some villagers had taken refuge, the press agency said.

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Herald Tribune

Published With The New York Times and The Washington Post

What Next in the Gulf?

What should the United States do next in the Gulf? U.S. warships have been there for 40 years to protect American shipping and to give visible expression to extensive American interests. None of that is at issue. What now provokes intense concern in Congress and the public is a more precise question: Should the United States go beyond this traditional role by putting American flags on 11 Kuwaiti tankers and defend them against Iranian attacks? The president, quick to describe the ships as American, says yes, of course. Members of Congress say, not so fast; show us.

They are right, for the reflagging question uncovers the underlying issue. Reflagging would destroy all pretense of American neutrality in the Iran-Iraq war. The tilt toward Iraq might lead to direct hostilities between the United States and Iran, or at least drive an even deeper wedge between them for decades to come, perhaps even pushing Iran under the Soviet wing.

The enormity of these stakes compels caution. To make matters worse, the Reagan administration's recent performance and policy in the Gulf do not inspire confidence. Even Bob Dole, the Senate Republican leader, feels compelled to say, "I don't think anyone knows quite what the policy is." Sam Nunn, chairman of the Senate Armed Services Committee, urges delay in reflagging.

Washington may well have to take further action in the Gulf, especially since the administration has already pledged to reflag. It cannot simply renege and stand by and do nothing while Kuwait charters Soviet ships, as it has done. Predominance in the Gulf bears heavily on regional and global influence. It is entirely possible that a compelling case can be made for reflagging. But the burden of proof is on the administration.

In fairness to the administration, it is necessary to get events in the right order. What inflamed the public was the Iraqi attack on the USS Stark on May 17. But it was months earlier that Kuwait first approached Washington about reflagging. It was in March that the United States and Kuwait

reached agreement to reflag the 11 Kuwaiti tankers, after Moscow had permitted Kuwait to charter three Soviet vessels. And it was in March that U.S. intelligence spotted Iran starting deployment of Chinese-made missiles near the Strait of Hormuz.

The administration accepted those risks at the time. Congress and the public took no exception. Only after the attack on the Stark did people notice, and question.

So the administration dusted off the neutral rationale that the navy is in the Gulf to defend freedom of navigation. The point is not very persuasive. Iraq, not Iran, started the Gulf war. Iraq, not Iran, began striking oil tankers in 1984. Iraq attacks more than twice as many ships as Iran. Does the administration propose defending Iranian shipping on behalf of principle?

It was not free navigation but the Iran-Iraq war that impelled the administration to consider extending the navy's protection to Kuwait. That oil-rich sheikdom helps to finance Iraq against Iran.

The clear danger to regional stability, far more than attacks on shipping, is Iranian fundamentalism. The United States has no warrant for warring on Iran. Iran has not attacked American ships. Indeed, the United States hopes for better relations with Iran after Ayatollah Ruhollah Khomeini. These considerations all argue for caution.

To delay reflagging does not preclude making other arrangements with Kuwait or other Gulf states. Nor does it mean, as President Reagan contends, abdicating "our role as a naval power" or opening "opportunities for the Soviets to move into this chokepoint of the free world's oil flow." The United States will retain six frigates and destroyers in the area plus an aircraft carrier battle group. The Soviet Union has no warships there.

America has the military power in the region to put off reflagging until the Stark episode settles. U.S. interests are more clearly defined and the administration puts forward a policy worth taking risks for.

—THE NEW YORK TIMES

No Script for South Korea

The radical students who started the riots in South Korea are being joined by some older, middle-class people and cheered by still others. A government whose pride is order has lost control of the streets. The military shows signs of unease, with one faction growing for a harsher crackdown, perhaps martial law, while another explores a measure of relaxation and a return to the talks on presidential-election rules whose breaking off, by the government, triggered the crisis. A return would raise the question of whether the opposition would or could control the changing hands in the streets.

Caught unprepared, the United States struggles to retain a policy grip. It had hoped that President Chun Doo Hwan would guide South Korea to a peaceful transfer of power in February and that Seoul would reap the prestige of hosting the 1988 Summer Olympics. But Washington did not count on President Chun's rigidity or on the determination of the opposition. Now the administration must play catch-up: Mr. Reagan has written Mr. Chun advising moderation, and endorsed Representative Stephen Solarz's resolution calling for broader freedoms and the resumption of constitutional talks.

There is no text to guide a transition toward democracy in a country such as

South Korea, which has no firm democratic tradition and which has a treacherous neighbor, Communist-ruled North Korea, and the powerful armed forces to match. These cultural and circumstantial considerations have reinforced the caution of American policy makers in dealing with violence or revolution; they fear decisive action for democratic change may offend nationalistic sensibilities or embolden the players to do the wrong thing. The Philippines, where the Reagan administration did help move events along, is cited as a relevant model. But the Philippines had a democratic strand in its past and no comparable security threat. Crucially, a plausible democratic leader came along and the army suddenly switched to her side.

There are, nonetheless, risks in the stated American policy of "restraint." South Korea is a place where the society, modernizing fast, has outgrown the state. It is ready for democracy but the generals are. It is also a place that hangs on every American word—and on every American hesitation and silence, which some in the opposition exploit to blame Americans for the home-grown repression. The task before the United States is to make sure South Koreans understand it is on the democratic side.

—THE WASHINGTON POST

Fighting Italian Paralysis

"Very complex and confusing," declared former Prime Minister Bettino Craxi after the Italian election that his own Socialists came closest to winning. Winning, Italian style, means creeping up a few points in the popular vote, from 11.4 percent to 14.3 percent in the Socialists' case. That only shifts the balance within the ruling center coalition; nothing much was changed by the June 14 vote. Italy faces months of the paralysis that the vote was meant to end.

It is no crisis. Italians know how to muddle through. But the paralysis follows three effective years of a Craxi-led coalition, when the economy spurred and real reforms were enacted. This performance probably cannot be matched without basic electoral reform.

More-of-the-same voting is increasingly common in Europe. It has just happened in Britain and West Germany, where conservative governments were returned by much the same margins as before. But there is this difference. Though her party won 43 percent of the vote, Prime Minister Margaret Thatcher holds a commanding majority. That is because it is winner-take-all in Brit-

ain. Italy's proportional representation system, like that of Israel and other countries, assures a quarrelsome handful to every minor party. The result: too many checks, especially in Italy, where Christian Democrats (34.3 percent) can govern only in coalition with smaller parties, because the Communists (26.6 percent) are not trusted as partners. There are six tiny parties.

One remedy for Italy's paralysis is increased use of referendums to settle what Parliament cannot. The Greens now urge a plebiscite on nuclear power. Another remedy is leadership of the kind Mr. Craxi provided in those prosperous years, in which terrorism declined and agreement was reached on deploying U.S. medium-range missiles. But his success stirred the resentment of Christian Democrats, threatening chronic paralysis.

It is time to consider a more fundamental remedy, which Mr. Craxi has proposed: change the rules to inhibit tiny parties. Giving the center more space could bolster democracy—and Italy's useful voice with-in the wider Atlantic alliance.

—THE NEW YORK TIMES

Other Comment

A Longer Battle for Vietnam

Vietnam has been gradually shedding its oldest comrades, men who under Ho Chi Minh formed the century's most formidable resistance movement. Death claimed Le Duan, the Communist Party secretary-general, last July. Five months later, Truong Chinh, his successor, Premier Pham Van Dong, and Le Duc Tho, negotiator with Henry Kissinger of the Paris peace agreement, resigned from the Politburo. However,

it was only Thursday that Mr. Dong was replaced as premier and Mr. Chinh as president. Unmatched on the battlefield, the old guard proved inept at running a peacetime economy. Today, Vietnam suffers from high unemployment and a level of inflation more associated with a Latin American banana republic than a Marxist state. These failings have been admitted by the new leadership. But the choice of successors to Mr. Dong and Mr. Chinh suggests change will be slow.

—The Daily Telegraph (London)

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Opportunity For a Bridge Over the Gulf

By George W. Ball

PRINCETON, New Jersey—The doctrine of foreign policy demonstrated by President Reagan's reaction to recent events in the Middle East reflects his strange compulsion to express all regional quarrels in the bellicose idiom of the East-West struggle. That practice is anything but useful. Not only does it obstruct progress toward a settlement of the Middle East's complex problems, but it denies us the opportunity to explore some potentially productive approaches to the Soviet Union that evolving realities now make possible.

The administration's Middle East machinations have been not merely Byzantine but inept. When, in spite of pious denials and evasions, the White House was caught arming Iran, that disclosure provoked mistrust in every Arab capital. Such mistrust was felt with particular intensity in Iraq, which, caught in the middle of the Iran-Iraq "tanker war," approached the U.S. Coast Guard in January with a request to transfer its tankers to American registry.

Then, a month later, only after the coast guard had ignored that request with bureaucratic indifference, Kuwait asked Moscow to place the Soviet flag on Kuwaiti tankers. Moscow professed unfamiliarity with the practice of "reflagging," but it did lease three tankers to Kuwait and agreed to provide them with small armed escorts. Oddly, the White House took little notice of these events until after the Iraqi attack on the U.S. frigate Stark on May 17. Immediately the president, without consultation with Congress or any adequate military planning, announced that the United States would transfer its flag to 11 Kuwaiti tankers and provide them with armed escorts.

Once more ideology had prevailed over logic. Though Iraq attacked the Stark and Iraq had perpetrated two-thirds of all the harassment incidents against Gulf shipping, the president dramatically proclaimed that he was taking this step so that the use of vital Gulf sea lanes "will not be dictated by the Iranians." He added, as if by reflex, that "these lanes will not be permitted to come under the control of the Soviet Union."

So while abruptly renouncing America's neutrality in the Iran-Iraq war and allying the United States with Iraq, the president seemed compelled to sing his old hymn of hate for Moscow. Yet, in his anxiety to blunder the Soviet Union into keeping out of the Gulf, he utterly failed to explain how it could possibly contrive to "control" the Gulf sea lanes merely by escorting three tankers.

His still warping sounded even more off-key when the Soviet first deputy foreign minister, an exclusive guest at the summit in the Middle East, declared that the United States was "regarding" Washington's plan to build up its Gulf fleet, the Kremlin had no intention of augmenting its tiny three-ship flotilla. Nor did the president even acknowledge Mr. Vorontsov's additional statement that his country was eager to consult with America on halting the Gulf war.



Mr. Reagan's negativism seems particularly wrong-headed, since Moscow and Washington have a common objective in the Gulf. Both wish to promote tranquility there and both are antagonists of revolutionary Iran. Each nation knows that the triumph of the Khomenei regime over Iraq would present it with major policy problems. Iranian Shiite fundamentalism is already creating unrest in Moslem-inhabited Central Asian republics of the Soviet Union, while Iran's aid to the Afghan rebels is galling to a Kremlin that desperately wants out of the Afghan imbroglio. For its part, America would suffer serious dam-

Moscow and Washington should work together for a resolution of the Gulf war, then turn their attention to other regional problems.

age were an Iranian victory to unleash fundamentalist forces that might overthrow friendly Arab governments. And were the Iranians to gain control of practically all of the Gulf's oil, the Khomenei regime could exert leverage on Japan, Europe and the United States. In view of Iran's hatred for Israel and its big brother, America, it might even bring to the side of the rejectionist Arab states vast numbers of veteran troops that could tip the balance and ultimately force the United States to intervene with its own armed forces.

To forge a wise policy, the administration must frankly answer at least two questions. Does it make sense for the United States to try to maintain an exclusive sphere of influence in the Middle East? Should American lives be risked to pursue that dubious goal, or would the United States not be better advised to seize this rare chance to engage the Soviet Union in a common effort to resolve some of the festering problems that make sleepless nights for each superpower? The benefits of a mutual approach could be

significant, provided the administration revised its attitude and rhetoric. Mr. Reagan is still concentrating on rendering nuclear weapons "impotent and obsolete," while doggedly playing the 19th-century "great game" of trying to bar the door of the Middle East against Russia. He is ignoring the chance to exploit the nuclear balance of terror that has for 40 years deterred the superpowers from drifting into a new world conflict.

One may speculate that by breaking the war cycle that has for millennia cursed humanity with two or three major wars a century the nuclear stalemate offers the first and best chance for a cautious East-West collaboration in key areas where the superpowers share objectives.

That proposition should be tested, and the assistance of common interests in the Gulf offers a chance to test it with a minimum of risk. That is not to imply that the Kremlin will totally change its habits; no doubt, whenever its financial resources and internal difficulties permit, it will still seek targets of opportunity abroad.

But if the United States takes preventive measures to deal with the conditions that provide those opportunities and create those targets, instead of relying solely on force and military power to deal with them after the fact, the Soviet Union might be denied significant gains.

Having combined our leverage to seek common immunity for our shipping and to fashion a resolution of the Iran-Iraq war, we might then turn our attention both to the Afghan war and the Arab-Israeli struggle.

The latter proposal requires the United States to recognize that, although the Soviet Union lacks the ability to impose peace in the Middle East, it can torpedo any proposals that the United States might make. Since there is a growing danger that the rivalry of Syria and Israel could ultimately lead to a confrontation between their superpower patrons, the occasion of the projected Middle East peace conference might be used to work out a common policy with the Soviet Union and the West European nations.

The writer was undersecretary of state in the Kennedy and Johnson administrations. He contributed this column to The New York Times.

The Office No One Runs for but Few Would Spurn

By Patrick Thomas

WASHINGTON—Since World War II, half of the eight U.S. presidents have come up from the vice presidency, and two other presidents have won presidential nominations. Yet there is something quite cavalier about the way running mates are selected. The last time the public had a say was in 1956, when Adlai Stevenson allowed the Democratic delegates to decide the matter. Accidental presidents have ranged from monumental mediocrities like Millard Fillmore to Mount Rushmore types like Theodore Roosevelt. In 1972, the nominees of both parties named running mates, and in picking running mates, George McGovern's campaign self-destructed when the electorate learned that his first choice, Senator Thomas Eagleton of Missouri, had undergone psychiatric treatment. The winner, Richard Nixon, was eventually no luckier; Spiro T. Agnew was forced to resign as vice president in 1973 after a tax fraud indictment.

Originally, the office was awarded to the runner-up in the general election. A look at history adds weight to the argument put forth by Justice Thurgood Marshall of the Supreme

Court that the country's Founding Fathers were not necessarily the last word on good government. In the 1800 election, Thomas Jefferson and Aaron Burr tied with 73 electoral votes each, and the race was decided in the House of Representatives where Alexander Hamilton swung the decision to Jefferson. The perilous nature of original intent was illuminated in 1904 when Vice President Burr killed Hamilton in a duel. Just before the killing, in a climate of rumor, the constitution was amended to allow the presidential nominees to name their own running mates. Since then, nominees have normally chosen automatic power and most often selected someone to woo a specific group. Geraldine Ferraro's nomination, for instance, was a classic case of political symbolism to appeal to women voters.

The logical way to a running mate would be to choose the runner-up from the primaries, as Ronald Reagan did in 1980 and John Kennedy did in 1960. The only other time this has happened was in 1876, when Samuel

Tilden was the Democratic candidate. Presidential nominees usually ignore their serious primary rivals, often at the expense of their own chances. A Jimmy Carter-Edward Kennedy slate in 1980 or a Gerald Ford-Ronald Reagan team in 1976 could conceivably have changed the outcomes. Yet personality conflicts precluded practically. Now, it is almost picking time for next year's No. 2 nominees.

On the Republican side, we know at least who is not likely: George Bush can hardly resist the idea of being history's first 12-year-old president. Senator Bob Dole of Kansas has an unpleasant experience running for second place in 1976; besides, he has a better job now as Senate minority leader. Howard Baker, the former Senate leader and present White House chief of staff, is overqualified. Two serious contenders could be Paul Laxalt, the retired Nevada senator who is a close friend of Mr. Reagan, and Representative Jack Kemp of New York, the supply sider's redempt signal caller. But Mr. Laxalt has been wounded by a messy

libel suit and Mr. Kemp so far demonstrates no broad appeal. The Democrats have an embarrassment of potential riches; all the presidential candidates seem suitable for second place. But with a large field of presidential candidates, what is worrying Democrats most is a vision of a truly open convention, with no candidate coming to Atlanta with more than 35 percent of the delegate votes. In that case, the power broker could be the Reverend Jesse Jackson, who could take as much as 90 percent of the black vote in the Southern regional primaries in March. If Mr. Jackson's secret ambition is to be the first black vice presidential nominee, the Democrats could be in trouble.

Since Gary Hart dropped out, Jackson tales have menaced the party mainstream. For six weeks, Democrats walked on cat's paws, until the impetuous Delaware senator, Joe Biden, said what the cautious had been afraid to say: Mr. Jackson is unacceptable as a running mate. The problem is not that he is black but that he is a radical of the left—as an avowed radical, George Wallace was a radical of the right in 1968 and also unacceptable.

Mr. Wallace was a spoiler; his American Independent Party took 13 percent of the vote and probably threw the race to Mr. Nixon. At the core of Mr. Jackson's power is the threat of his mounting an independent candidacy after the convention.

In theory, the vice presidency is not so much an office you run for as hope for. In practice, it is an opportunity that you position yourself for. "I'm running for president, not vice president"; that's what they all say. Not since 1920 has America seen a race so up for grabs. That year, Republicans took 10 ballots to settle on Warren Harding for president, while the Democrats needed 44 to nominate James Cox. That was an era when the tickets were historically bottom-heavy. The interesting match was between the vice presidential candidates—Calvin Coolidge and Franklin Roosevelt.

The author, a political commentator, wrote this for the Los Angeles Times.

Glasnost: You Have to Read the Footnote

By Stephen S. Rosenfield

WASHINGTON—For a couple of years now, we of the press, including those of us who know some Russian, and lots of other people have been talking of Mikhail Gorbachev's campaign for "openness"—to the point of making glasnost one of the few Russian words that is presumed to be in the informed citizen's vocabulary. It comes, then, as a rude but necessary awakening to be told by a former American diplomat, William H. Luers, in a footnote to his article on Eastern Europe in Foreign Affairs magazine, that we have got the translation wrong—and that it makes a heck of a difference.

Mr. Luers, an old Moscow hand and the U.S. ambassador to Czechoslovakia from 1983 to 1986, translates glasnost as "public airing," adding the following footnote: "One equivalent in Czech to glasnost seems to be 'hlasnost,' which means 'loudness.' The Czechs... simply use the Russian word in reporting about Gorbachev's efforts, but they, like others in Eastern Europe, know that it does not mean 'openness,' and speculate that it is closer in meaning to 'publicity.' This is the meaning listed in Russian-English dictionaries. The English-language media and scholars seriously distort its meaning, in my view, by translating glasnost as 'openness.'"

With a clucking feeding, I looked up—for the first time—glasnost in my old student Semantics. "Publicity," an unsystematic computer search established that in Mr. Gorbachev's first days, Reuters was saying "publicity" and The Associated Press "openness or publicity"—evidence that some journalists were trying to grapple with the complexity of it all—but in more recent times

policy sound familiar, safe, innocent, incipiently democratic, potentially converging. No single thing may have softened his Western reception more than the uncritical spreading of this one definition of glasnost by the journalists and others who supposedly stand guard at the linguistic-political gates. Carelessness and wishful thinking surely account for part of this pervasive misreading.

But there is another part, which is that glasnost is an odd duck, and none of us, perhaps not even Mr. Gorbachev, has figured out exactly what it is. It is not just hopeful Westerners who see the new mode as something that could move the Soviet Union toward pluralism and democracy. Wary Soviet Communists feel the same way. Robert C. Tucker of Princeton notes that Mr. Gorbachev has found it necessary to qualify fears that his prescriptions seemed too radical, assuring the Communist Party Central Committee that "no breakup of our political system" is intended.

Gail Lapidus, a Berkeley professor, sees in glasnost a "simultaneous combination of both endor and publicity" whose aims are to reduce the Soviet people's reliance on foreign (radio) sources of information and to enhance the regime's credibility and popular standing. Glasnost, she adds, offers "a convenient weapon for use against political opponents."

This element of official handouts is precisely what fades into the mists of openness. The Economist of London tried and failed in its June 13 issue to find a one-word substitute: "Public airing" has two words and handles a bit awkwardly but goes in the right direction. It's got openness.

The Washington Post.



By GRAFF in Artistic Detail (Cable).
Cable Syndicates.

inquiry by an otherwise closed Communist society for purposes that the leadership alone defines. Practically speaking, openness involves publicity and publicity involves some openness. Essentially, however, openness goes to the nature of a society that is shedding controls, and publicity is merely a technique of manipulation, something subject to being turned on and off. In political terms, routine usage of "openness" gives an unearned gift to Mr. Gorbachev. It tends to make his

John Paul: 'The Great Confronter'

By Jim Hoagland

PARIS—The protests about Pope John Paul II receiving Kurt Waldheim at the Vatican this week miss the point. As a religious leader, the pope turns no stone away. As a political leader, this pope has rightly made it his duty to confront rather than shun those with whom he disagrees, from General Pinochet of Chile to General Jaruzelski of Poland.

In an era when Ronald Reagan and Mikhail Gorbachev are styled as the Great Communicators, John Paul is the Great Confronter. He wants to illuminate an international moral order as an alternative to the corrupting political structures of the temporal world. The pope does not allow those who try to find legitimacy by meeting him to get away unscathed, as Mr. Waldheim will discover.

The protests demonstrate another important reality about the pope. Most of us tend to focus on this remarkably multifaceted pontiff through the one or two prisms that matter most to us at the time, and fail to grasp the integrated, long-term political and ethical vision of a man who will mark the closing years of the 20th century as much as any other leader we can identify today.

If we disagree with him on birth control or his tough rejection of the Sandinistas, he comes on like a Roman Catholic synodist. If we do not like his message on redistributing wealth or oppose having his cardinals challenge pro-Western military regimes, he is a meddling do-gooder.

The sense that there is a broader pattern in all this has been growing for me since a trip through Asia last year provided a chance to listen in the same week to Cardinal Stephen Kin in Seoul and Cardinal Jozef Sin in Manila. They described in detail the moral collapse of the elites ruling their nations and the church's refusal to collaborate in the efforts of those elites to keep power through repression.

The differences between the two prelates, and between their societies, are greater than the similarities. But John Paul's determination to have his church be the alternative moral authority to governments in societies swept up in social upheaval was clearly manifested by both men.

In the Philippines, Cardinal Sin, acting with John Paul's encouragement, played the key role in mobilizing "people power" to depose the Marcoses. We may be witnessing a similar process at work right now in South Korea and in Panama. And the pope's trips to his native Poland, including the one he concluded early last week, have fundamentally reshaped politics in Eastern Europe.

Despite open displays of disapproval by General Jaruzelski and the quiet discontent of the more conservative and accommodation-minded national church hierarchy, John Paul publicly celebrated the regime's failure to break the moral authority of the outlawed Solidarity movement. He extolled the courage and intellectual honesty that have kept Solidarity from being bought off or intimidated out of existence. And he refused to extend legitimacy to nuclear disarmament proposals made by Mr. Gorbachev and General Jaruzelski.

The pope's persistent and patient chipping away at the evils of Communism and accommodation-minded national church hierarchy, John Paul publicly celebrated the regime's failure to break the moral authority of the outlawed Solidarity movement. He extolled the courage and intellectual honesty that have kept Solidarity from being bought off or intimidated out of existence. And he refused to extend legitimacy to nuclear disarmament proposals made by Mr. Gorbachev and General Jaruzelski.

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Some at the State Department contended against the "tear down the wall" line as being too provocative at a time when progress is being made on an arms control summit meeting. The objection misses the point. The White House continues to look for dramatic gestures to show that there is still life in the administration, rather than developing a serious analysis of how to deal with the Soviets in the years to come.

The White House underscored this in another way recently by sounding out Zbigniew Brzezinski about becoming the next U.S. ambassador to Poland. Mr. Brzezinski, national security adviser to Jimmy Carter and a red flag to the Russians, was not interested in discussing this bizarre proposal and urged the White House instead to send an experienced professional, which it is now doing.

History is likely to record the challenge to tear down the wall as a meaningless stunt, delivered as a grand gesture that was not conceived as part of a coherent policy. The Reagan administration, heading into a second term with a clever, manipulative Soviet leader, continues to be unwilling to get in the kind of hard work that steady attention that John Paul votes to the same set of problems.

The Washington Post.

IN OUR PAGES, 75 AND 50 YEARS AGO

1912: China's New Woes

PARIS—[A Herald editorial says:] China is again in a state of anarchy. The regular troops, unpaid and mutinous, are looting in various regions; the irregular forces, with which the overthrow of the Manchu dynasty was achieved, inspire distrust everywhere. Serious disturbances have occurred in Mukden, and the outlook in Canton is extremely threatening. Business is at a standstill, the authorities are powerless or incompetent, distress is rife. Perhaps the most disturbing element is the pusillanimity of the Governmental chiefs. The Premier, Tang Shao-Yi, is in flight; his example has been followed by one of his colleagues. With all respect for the eminent members of the Chinese Cabinet, it must be admitted that their eagerness to get away from Peking suggests that they consider the Chinese Republic to be in danger.

1937: Blum Cabinet Falls

PARIS—Following the resignation of Premier Léon Blum on June 20, the cabinet of the Radical-Socialist party, accepted President Albert Lebrun's invitation to form a new government. Despite the fall of the cabinet, the Popular Front remains unbroken in the Chamber. In view of Blum's intimation that he approved of a Popular Front Radical instead of Socialist leadership, certain principles of coalition between the two parties have been settled. The J. L. Dubs (Right) said: "It is probable that the conflict between Blum Cabinet and Parliament will break out sooner or later, and it is inevitable that it should break over the question of finances. Blum Cabinet was destroying the little Parliamentary regime."

July 20, 1950

For Kuwait, 7 Years of Gulf War Revive Old Religious Hatreds

By John Kifner
New York Times Service

KUWAIT — Seven years of war between Iran and Iraq have begun to rip the social fabric of this rich oil-producing emirate in the Gulf, stirring ancient animosities between Sunni and Shiite Muslim sects.

The Sunni ruling family of Kuwait has backed and financed Iraq from the beginning, largely from fear that Ayatollah Ruhollah Khomeini's Islamic Shiite extremist fundamentalism might spread from Iran.

A third of the people in Kuwait are Shiites, including many whose roots are in Iran.

Kuwait's Shiite community is largely well-to-do and, by the standards of the Arab world, relatively well integrated. But the Shiites have begun to feel growing identification with their religion, and this has led to the rise of an Iranian-backed underground and violence.

"The policy they are following in the Iran-Iraq war is splitting the country," said a Western diplomat, referring to Kuwaiti Shiites. "If it keeps dragging on, you could get a Lebanon, a civil-war situation here."

He said the small groups that exist now would not be able to do it, adding, however, that the Shiites "are clearly dedicated people, and

if it goes on like this on the domestic scene you will have people identifying by group, just as in Lebanon."

Six Shiite citizens were sentenced to death early this month for sabotage in the oil fields and docks in January. Explosions and fires were set on the eve of a meeting by Islamic leaders; Iran had denounced the meeting.

Twenty-five Kuwaiti Shiites and a Saudi are being tried behind closed doors for battling policemen who were searching for suspects in the sabotage. The suspect escaped.

The search for the plotters was efficient but harsh, according to diplomats. There were several

clashes, and two policemen were seriously wounded. There have been roundups of entire families, right down to their Sri Lankan maids. There have been allegations of torture.

Eight Shiites, mostly juveniles, were arrested this month on charges of distributing pamphlets that described the government as evil.

A diplomat who saw the pamphlets said they were signed in the name of Hezbollah, or Party of God, which represents the Iranian and Lebanese Shiite fundamentalists, and also by a group called Forces of the Prophet Mohammed in Kuwait.

On May 22, a major fire was set in a propane storage tank at an oil installation near the city of Kuwait. It burned out of control for almost three days and threatened the city.

The police said earlier this month that the saboteur was a Kuwaiti Shiite, Faisal Ahmad Karam Nizar, who held a responsible position in the national Kuwait Oil Co. Others accused in the sabotage were also employees of Kuwait Oil Co.

Kuwait has not been immune to terrorist attacks. Suicide truck bombs damaged the U.S. and French embassies in 1983. In 1985, the driver of a car rigged with a bomb tried to crash into the emir's motorcade.

Both acts were blamed on Al Daawla, the Iranian-backed Iraqi Shiite underground, and could be dismissed as the work of foreigners.

All of that changed in January when more than a dozen Shiite citizens were rounded up in connection with the oil-field fires. Their weapons and bombs were displayed on TV.

The arrests sent shock waves through this tiny nation.

Editorials questioned the wisdom of having granted citizenship to Shiites — "people who spoke in Arabic but whose hearts beat in Persian."

"There's no such thing as an upper-class Shiite," a Sunni businessman exploded when a visitor mentioned that several of those arrested bore the names of major Shiite clans, usually regarded as part of the Kuwaiti elite.

"It's a very gloomy situation," said a Western diplomat. "It's difficult to protect against a serious breakdown of law and order. It's partly a Persian-Arab issue as well as a Shia-Sunni one. The history is long."

"It's a question of divided loyalties. Now the Sunnis really believe that you cannot trust a Shia, no matter how long they have been here, how rich they are, or how much they protest their loyalty to the emir."

About 40 percent of Kuwait's 1.6 million people have full citizenship, and this includes both Sunnis, who predominate, and Shiites. Citizens have considerable benefits, including a guaranteed salary and a house with maid quarters. People from other countries do much of the manual and technical work.

The Shiite one-third includes people from Iran, Lebanon and Pakistan.

Shiites have become well represented in a number of sensitive fields, particularly in the Kuwait Oil Co., the army and the police. Sunnis have tended to the more comfortable jobs in government and business.

There is now an effort, diplomats and Kuwaiti sources say, to move the Shiites out of their sensitive positions.

"More and more, any Kuwaiti Shiite is regarded by the authorities as a potential fifth columnist, which is a self-fulfilling premise," said a European diplomat.

A Western-educated Kuwaiti Shiite said: "There is increasing hostility toward the Shia, suspicion of the Shia's loyalty to the system. It's being questioned by everybody. Now there is discrimination. I would not have bought that idea before, but now I can feel and smell that discrimination. Now I can see it for myself."

"Most Shiites, being of Persian origin, sympathize with Iran, while Sunnis sympathize with Iraq. Some of the tensions now are related to the war; some are deeply rooted."

Western diplomats give the ruling emir, Sheikh Jaber al-Ahmad al-Sabah, credit for trying to enforce security while at the same time attempting to avoid religious strife.

But, they add, he is under pressure from hard-line Sunnis to strike at the Shiites. They note that emotions are highest among young people, and half the Kuwaiti citizens are under 15.

Sunni fundamentalist groups have openly advocated attacks on Shiite mosques.

Israel Assails Waldheim's Papal Visit

Reuters

JERUSALEM — Prime Minister Yitzhak Shamir of Israel on Sunday condemned Pope John Paul II's decision to grant an audience to President Kurt Waldheim of Austria, saying the meeting would give legitimacy to alleged wartime crimes by Mr. Waldheim.

"In face of the fact that there are very serious accusations against Waldheim, this move would be ex-

plained in the world as a kind of legitimization of the crimes he committed according to the various accusations," Mr. Shamir said.

Mr. Shamir said Israel could do nothing to influence the planned papal audience because of the lack of diplomatic relations with the Vatican, which does not recognize the Jewish state.

"Israel can do nothing but express its unhappiness and regret," Mr. Shamir said.

Reaction to Protests

Roberto Suro of The New York Times reported earlier from Rome: The Vatican issued a statement Saturday saying it was "surprised and grieved" that the pope's decision to receive Mr. Waldheim had provoked doubts about the pope's respect for the Jewish people.

The statement was issued after Jewish groups in the United States, Europe and Israel protested the visit scheduled for Thursday.

The Vatican rarely offers official comment on the motives for a papal decision.

Mr. Waldheim has been accused of taking part in deportations and executions of Jews and others in Greece and Yugoslavia when he was a German lieutenant in World War II. He has denied the allegations.

Leaders of American Jewish organizations, who met Friday in New York, said the papal audience with Mr. Waldheim had made "inappropriate" their own planned meeting with John Paul II in Miami in September during his visit to the United States.

Vatican officials insist that Austria's bishops did not lobby for the visit. The Austrian government was said to have been the most active in beseeching the Vatican to receive Mr. Waldheim.

While the nature of the exchanges between Vienna and Rome is still unclear, some Vatican officials believe that Austrian officials, and in particular leaders of the Christian Democratic Party, interceded on behalf of Mr. Waldheim.

Vatican officials have expressed concern in recent days that the audience could be a setback to some of John Paul's many efforts to improve relations with Jews, which emerged from a decision by the Second Vatican Council in 1965.

The Vatican said it was "surprised and grieved" that the announcement of Mr. Waldheim's visit had provoked "questions and doubts about the consideration and respect by the pope and the Holy See toward the Jewish people and particularly their position regarding the inhuman persecution which struck them."

After defending the pope's position toward the Jews, the Vatican statement explained the diplomatic background of Mr. Waldheim's visit.

The statement notes that Austria, "an old and noble Catholic nation," is linked to the Holy See by "cordial relations," and it says the Austrians democratically elected Mr. Waldheim a year ago.

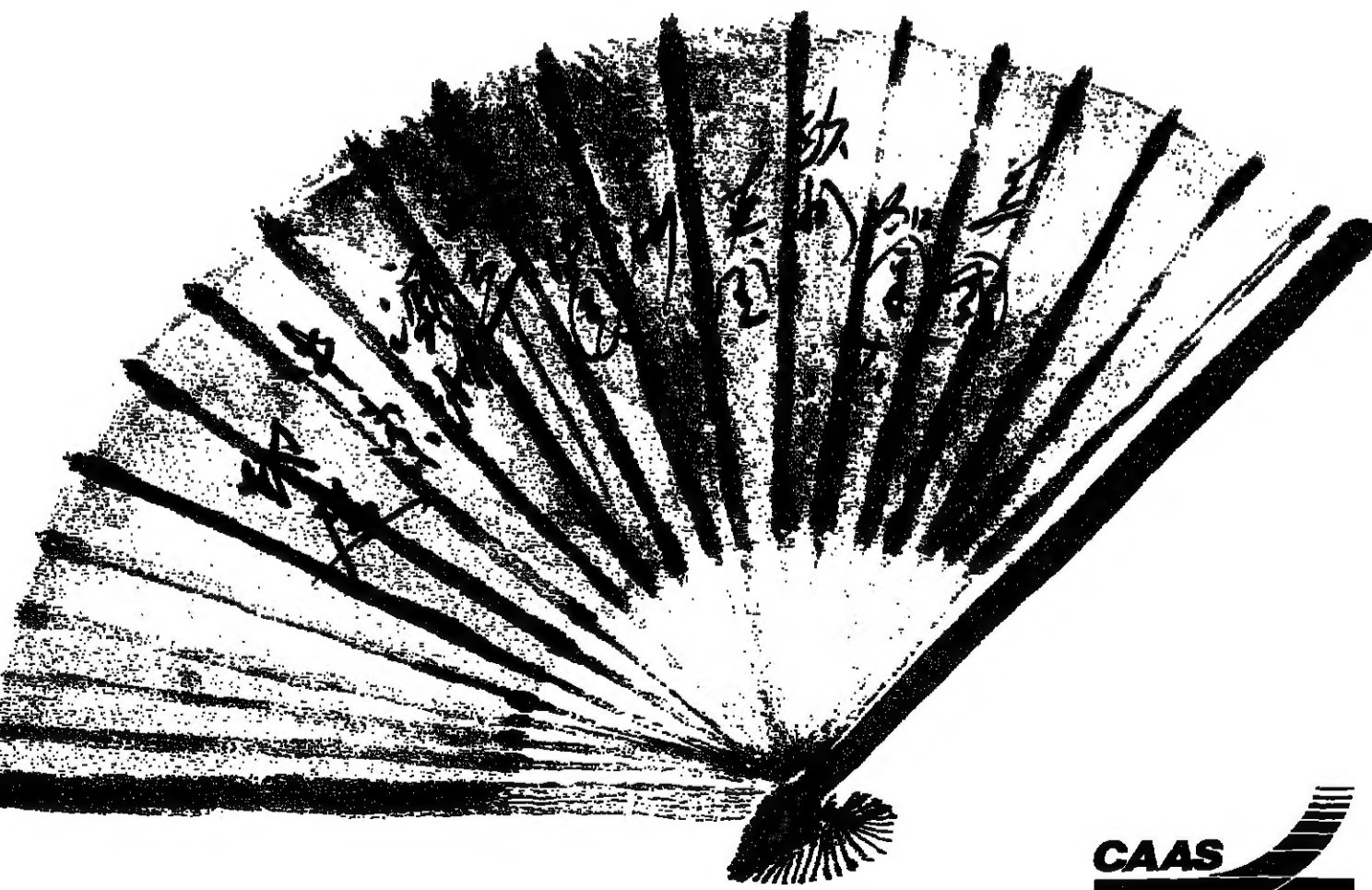
Mr. Waldheim, it added, had previously been elected to two terms as secretary-general of the United Nations and had "carried out missions of great responsibility for peace and international cooperation."

The statement said Mr. Waldheim's official request for an audience had been granted because of the Holy See's relationship with Austria.

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Adel Osseiran making a call in an effort to free his son.

Lebanon Official Accuses Sharjah Ruler Is Reinstated By Emirates

Reuters

RAMAILEH, Lebanon — Defense Minister Adel Osseiran accused the pro-Iranian Hezbollah militia on Sunday of being responsible for the kidnapping last week of his son and an American journalist, Charles Glass.

Mr. Osseiran also predicted that there would soon be "surprise" developments about all foreign hostages. He did not elaborate.

"They are with Hezbollah. It was confirmed," he said at his family home, about 20 miles (30 kilometers) south of Beirut. The defense minister had avoided a direct accusation last week.

Hezbollah, or Party of God, has denied any link to the abductions. Ali Osseiran, Mr. Glass and their police chauffeur were kidnapped in a Syrian-controlled, Shiite Moslem area south of Beirut on Wednesday.

Mr. Glass was the first foreigner known to have been kidnapped since 7,000 Syrian soldiers were sent into West Beirut in February.

President Hafez al-Assad of Syria has ordered his forces to step up efforts to find the captives, Osseiran family sources said Saturday.

Some hostages are believed to be in the southern suburbs of Beirut, where Hezbollah has bases and which are virtually surrounded by Syrian troops.

Tension was still high in the southern suburbs Sunday after two persons were killed in clashes Friday between the pro-Syrian Shiite Amal militia and members of the Mikdad family, which is close to Hezbollah.

Christian broadcasting stations in East Beirut said that the abduction of Mr. Osseiran and Mr. Glass — a challenge to Syria's authority in West Beirut — was linked to strains between Tehran and Damascus.

Mr. Glass, 36, arrived in Lebanon earlier in June to research a book. He also did some free-lance reporting for his former employer, ABC News.

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Singapore Detains 6, Frees 4 in Alleged Plot

International Herald Tribune

SINGAPORE — The government has announced that 4 of 16 persons arrested last month for alleged involvement in a subversive Marxist network have been freed and 6 others arrested.

The official statement was issued as Suppiah Dhanabalan, Singapore's foreign minister, confirmed Saturday that the United States, Canada and Australia had raised the question of detentions with Singapore. He declined to give details and said the arrests were purely an internal matter for Singapore.

Among the six new arrests were a businessman, a lawyer and a university lecturer. They were said to have been implicated by those detained earlier. All 22 suspects were detained under Singapore's Internal Security Act, which allows indefinite detention without trial.

George P. Shultz, the U.S. secretary of state, said Friday that he had discussed the detention of the 16 persons in the original group of detainees "rather extensively" with Mr. Dhanabalan.

The officials from the United States, Australia and Canada were here for talks with Singapore and its partners in the Association of Southeast Asian Nations.

Ten of the original 16 were Roman Catholic church workers. One of them, Vincent Cheng, conceded in a television interview early this month that he had used church organizations as a cover for Marxist subversion.

Mr. Shultz said he would not comment on the case because it was taking place within the framework of Singapore's laws.

Bill Hayden, Australia's foreign minister, said that while Australia respected the right of Singapore to safeguard its internal security, those detained should be charged in court.

Joe Clark, Canada's secretary of state for external affairs, also brought the matter up with Mr. Dhanabalan, officials said.

Prime Minister Lee Kuan Yew said June 2 that it was not Singapore's practice to bring those detained under the Internal Security Act to trial.

He said he would "not allow subversives to get away by insisting that I've got to prove everything against them in a court of law or produce evidence that will stand up to the strict rules of evidence of a court of law."

But Mr. Lee, a lawyer by training, said confessions would not be obtained by torture, coercion or distortion of the truth.

The government statement Saturday said Mr. Cheng, a former seminarian who is allegedly a key figure in the network, would be held in detention for two years. The 11 other members of the original 16 will be held for up to one year for what the government called "rehabilitation."

A delegation from the World

Press Freedom Committee, meanwhile, has failed to persuade Singapore to lift restrictions it imposed on Time magazine and the Wall Street Journal's Asian edition after disputes over what the government considered to be anti-Singapore articles.

"We are not encouraged that change will take place," said the delegation's chairman, Leonard Marks. Mr. Marks is a former director of the U.S. Information Agency.

The news agency carried a brief statement from the Supreme Council, which groups rulers of the seven emirates, saying there was a need to preserve stability and security in the United Arab Emirates.

Sources with close ties to the Sharjah ruling family said the agreement appeared to be a compromise.

They said that Sheikh Sultan might retain a cabinet and an appointed parliament that Sheikh Abdel-Aziz created.

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ETA Admits 'Mistake,' Marchers Protest Terror

Compiled by Our Staff From Dispatches
BILBAO, Spain — The Basque separatist organization ETA admitted responsibility Sunday for the bombing of a Barcelona supermarket last week and called the action a "serious mistake."

A statement released here said that in the future the ETA would "use all means to ensure a selectivity" in its terrorist attacks to prevent the public backlash that accompanied the blast in the underground car park of the

crowded Hyper-Cor supermarket. In Barcelona, 70,000 people demonstrated Sunday against the Basque attack that killed 17 and injured 37.

Two children carrying placards with the slogan "We want peace, down with ETA," led the chanting demonstrators through the streets of Barcelona to the scene of the blast. The initials ETA stand for Basque Homeland and Liberty in the Basque language.

The ETA statement also expressed condolences to the Catalan people for the explosion.

Hospital sources said two of the 39 injured, a man and a woman, died Sunday. Thirty-four of the injured were reported in serious condition, many with severe burns.

ETA has exploded several car bombs in Barcelona since the city was chosen last year as the site of the 1992 Olympic Games.

Indignation mounted among relatives of victims over the failure of the authorities to clear the supermarket despite warnings before the explosion.

Telephone calls from persons claiming to speak for the ETA warned police and a Barcelona newspaper nearly an hour before the blast.

Ramon Comas, whose brother and sister-in-law were injured, blamed the city's civil governor for failing to evacuate the supermarket after the first threat. He accused the supermarket's managers of putting economic interests above the security of customers.

Police said they searched the supermarket but found nothing by 3:30 P.M., the time at which the caller said the bomb was set to explode. They concluded it was a hoax.

A lawyer representing the supermarket denied Barcelona press reports that the supermarket received a separate telephone call warning them of the bomb. He said it was up to the police to decide whether to evacuate the building.

Prime Minister Felipe Gonzalez, who cut short a visit to Brazil, pledged Saturday to hunt down terrorists "with all legal means within our reach."

"One feels rage, but the fight has to be waged coldly," he said. (Reuters, AFP)

NUCLEAR: U.S. Offered Site

(Continued from Page 1)

year either denied that such a proposal had been made or said they were unaware of it.

But several U.S. officials who have followed South Pacific affairs closely have confirmed the offer.

An Australian diplomat familiar with the offer said France refused "for reasons of national pride and because of concern that it would compromise development of an independent French nuclear deterrent."

He said the approach was regarded as a sensitive issue by both the United States and France.

Washington, he said, was prepared to provide an alternative test site if Paris wanted it. But the Reagan administration was not prepared to press the issue because French cooperation was important on a range of high priority matters for the United States, including arms control and maintenance of an effective Western alliance.

Officials in Australia and New Zealand have warned that anti-nuclear feelings there and in other countries in the South Pacific have been fanned by France's nuclear testing in the region.

At a press conference in Singapore Friday after talks with foreign ministers of ASEAN, the Association of Southeast Asian Nations, Mr. Shultz said the United States was concerned about the hostility that French testing had aroused in and around the South Pacific.

But he said that France's nuclear capability was part of an arsenal maintained by the Western alliance.



Buddhist monks running for cover in Seoul after South Korean riot police fired tear gas into a street demonstration.

KOREA: Ruling Party Considers Concessions; U.S. Sends Official to Seoul

(Continued from Page 1)

Sunday night, about 300 students who had gathered on the grounds of the Myongdong Cathedral moved to the street and hurled fire bombs at riot police.

The police immediately fired tear gas, forcing the students back onto the cathedral grounds. The cathedral has become a rallying point for the students.

The state radio, quoting party officials, said Mr. Chun could help resolve the political crisis by doing away with a decision he made in April to postpone a dialogue with

the opposition on attending the constitution. That decision, to put off the talks until after next year's Olympic Games, was unpopular and is commonly seen to have helped generate support for the demonstrations.

U.S. Sends Aide to Seoul

The United States announced Sunday that the assistant secretary of state for Asian affairs, Gaston J. Sigur Jr., would leave for Seoul on Monday. Reuters reported from

Sydney.

U.S. officials accompanying Secretary of State George P. Shultz on

his official visit to Australia said it was still unclear which South Korean officials Mr. Sigur would meet, but high-level contacts were expected.

Mr. Sigur said later Sunday that the United States would press the Seoul government to hold open elections and resume negotiations with opposition leaders to stem the political unrest. The Associated Press reported.

"We've got to have in Korea a reopening of the discussions and the negotiations between the various political elements, the leader-

ship of those elements from the government and the major opposition party," Mr. Sigur said from Sydney.

"We have made that central to our policy that we believe the way to broaden the political base in Korea and to move the country toward democracy — which every political leader says he supports — that they've got to start talking to one another again," he said.

Mr. Sigur said his schedule had not been made final and he was unsure whether he would meet with opposition leaders while in Seoul.

BOOKS: Village Turns a Page to Economic Rebirth

(Continued from Page 1)

collapse many years ago by evolving into a book center.

In 1984, Mr. Anselot and some friends decided to make Redu a sister city of Hay and held a book-selling fair to mark the event.

The fair was so successful that some bookshelves decided to stay permanently in Redu. Some local residents also opened their stores. By 1985, there were about a dozen book shops, and that number has been growing steadily.

It is not known exactly how

much money has been pumped into Redu in recent years, but the figure is believed to be substantial. Aside from buying books, tourists and collectors set at local restaurants, stay at local hotels and visit other areas of interest in the Ardennes.

Youths who would normally have a hard time finding a job are hired to help out in the book stores, most of which are closed in December and January.

Other merchants also prosper. A lumberman has had to buy a larger truck to keep up with his orders, and a carpenter said that he stopped by Redu whenever he needed work.

Now the town, which is about 80 miles (125 kilometers) south of Brussels, is branching out, trying to become a cultural center for southern Belgium. A week ago, about a dozen French-language authors were in Redu for a literary conference. The town also plans to build several art studios to be rented to craftsmen.

Mr. Anselot and Mr. Alexandre admit that Redu's metamorphosis poses certain dangers. The onslaught of visitors could alter the fabric of life in Redu, and its farming roots could get lost in the shuffle.

"We are against all types of raw tourism," says Mr. Anselot. "We want to keep the village's rural character."

But certain changes are inevitable. Mr. Alexandre, who does his forestry work during the week and tends his shop on the weekend, says, "Now I feel more like a librarian than a forest ranger."

CHILE: Opposition Widens

(Continued from Page 1)

higher public spending to reduce unemployment. Chile's economy grew 5.7 percent last year. Business people are optimistic about the economic outlook.

But the conservative political parties that attract most business support are also keeping clear of General Pinochet's campaign to be the sole candidate in the plebiscite.

Francisco Bulnes and Andres Allamand, leaders of National Renovation, a coalition of rightist parties that have consistently backed the military regime, said a Pinochet candidacy would be undesirable.

"That would be an all-or-nothing flip of the coin," said Mr. Bulnes, a former senator. "If Pinochet loses, and I think he will, the defeat would be for the armed forces, which could be catastrophic."

The chance of defeating General Pinochet in the plebiscite lies in the ability of the center-left opposition parties to mount a national campaign that mobilizes a "no" vote. They have begun a voter-registration drive, which reached a million out of eight million potential voters last week.

"We can beat the dictatorship with its own rules if we get to work," said Ricardo Nuñez, a leader of a militant wing of the Christian Democrats.

"The regime can't win a clean election," said Ricardo Nuñez, president of the Democratic Socialists, "unless there is fraud, and there will be violence."

SAUDI: Secret Billions Aid U.S. in Reaching Foreign Policy Goals

(Continued from Page 1)

Even now, some details remain obscure.

The African subcommittee of the House Foreign Affairs Committee is investigating "a very strong circumstantial case," as one staff member put it, that the United States used Saudi money to circumvent a congressional ban on American aid to rebels fighting the Marxist government of Angola. The nine-year ban ended in 1985.

The Saudis acknowledge giving about \$3 billion a year in public foreign aid programs, and their secret contributions have apparently amounted to another billion dollars in some years.

These are among the major examples:

• Washington and Riyadh have cooperated to aid the insurgents in Afghanistan, and their joint donations amount to "well in excess" of \$500 million a year, an American source said.

• In 1977, the Saudis financed an airlift of Moroccan troops to Zaira, where they buttressed the shaky government of Mobutu Sese Seko.

• Saudi money was used to help the conservative North Yemen government repel an incursion from South Yemen in 1979. Much of the money was used to purchase American weapons.

• At the request of the American ambassador, the Saudis provided sizable amounts of money to the government of Somalia in the late 1970s and helped switch that country's alignment from the Soviet Union to the West.

Some sources familiar with these operations have decided to discuss them now, because they feel that the full extent of the Saudi contribution to American interests is not well understood. But other sources declined to talk, saying that publication would embarrass the Saudis and jeopardize the effectiveness of the relationship.

The Saudis' public-relations problem has recently been dramatized by fierce congressional opposition to President Ronald Reagan's proposed sale of Maverick missiles to the Saudis. The proposal was withdrawn.

To American officials who have nurtured the relationship over many years, the Saudi connection has significantly enhanced the in-

terests and influence of the United States at a time when it was unwilling or unable to spend on foreign projects because of economic and political constraints.

"I view it as a very cooperative, mutually beneficial relationship, built on an identity of views," a Reagan administration official said.

These things were all done according to law and lawful procedures," he said. "There is nothing to prevent us from talking to our friends and doing things of mutual interest. Thank God for the Saudis."

It is not unusual for the United States to seek the help of other countries to pursue foreign policy objectives. The intelligence com-

Officials of both countries insist that their relationship involves no explicit quid pro quo. But they also acknowledge that mutual obligations are widely understood and accepted.

"It's not written down anywhere," said Alfred L. Atherton, former assistant secretary of state for the Middle East. "It's implicit, but it's unambiguous. The Saudis see this as a special relationship and we do, too."

Reagan administration officials argue that if lawmakers knew more about the Saudi efforts to promote American interests, Congress would be more receptive to selling arms to the Saudis. But the Saudis, who deeply value secrecy, refuse to discuss their operations.

'It Takes King Fahd about 10 seconds to sign a check.'

— William B. Quandt, the Brookings Institution

mitties in Congress approved many of the Saudi operations. But in several cases, such as the aid to the Contras, Congress was apparently not informed.

A broader question is whether requests for Saudi help have created private obligations and expectations that could distort the execution of American foreign policy. "The question is, are we doing things for them? The staff member of the African subcommittee asked, "Is there a quid pro quo here?"

Sen. David L. Boren, an Oklahoma Democrat and chairman of the Senate Intelligence Committee, said he was satisfied that Congress had been adequately informed about the Saudi connection and that the United States had not incurred obligations that would work against its interests.

Nevertheless, some officials worry about the American dependence on Saudi money. Robert C. McFarlane, the former national security adviser, told the congressional committee investigating the Iran-contra affair that he was uncomfortable soliciting money from the Saudis and that when an American official does so, there is always the consideration of "what obligation do you incur."

Bandar bin Sultan, the Saudi ambassador to the United States, has told associates: "We have to show the United States we can be useful, too. In fact, we are even more useful than the Israelis."

In explaining the decision to seek Saudi help for American foreign policy goals, Mr. Quandt said: "We were selling them a lot of arms and felt some quid pro quo was reasonable to expect. They wouldn't give it on the Arab-Israeli issue, so we looked elsewhere."

The Saudi foreign aid program began in the late 1960s, after wealthy Arab countries were asked to aid the nations that lost territory to Israel in the 1967 war. Some of those connections, even though they had not been suggested by the United States, proved useful in the aftermath of the 1973 war, when Washington began making direct requests for Saudi help.

Secretary of State Henry A. Kissinger, for instance, used Saudi influence to contact the Syrians and negotiate a disengagement agreement with Israel on the Golan Heights. Mr. Atherton, who traveled frequently with Mr. Kissinger, said the secretary used to remark, "Wherever I go in the Middle East, I find Saudi footprints in the sand."

The subcommittee has tentatively scheduled hearings for early July to explore whether the Saudi funds were used to skirt U.S. law.

The Saudi ability to finance foreign policy efforts promoted by Washington has declined recently with the slump in oil prices, but as the payment to the Nicaraguan Contras demonstrates, Riyadh remains willing to provide cash at key moments.

The relationship has clearly been strained by recent incidents: the American failure to provide arms to the Saudis and the Saudi refusal to intercept an Iraqi plane that had attacked the U.S. frigate Stark.

"It's not the best of all possible worlds," Mr. Atherton said. "But it could be worse, and the Saudis keep it from being worse. We just shouldn't expect too much from them."

FORCE: Cooperation Considered

(Continued from Page 1)

withdrawal from the alliance's military command.

But Mr. Kohl threw cold water on the suggestion.

"You cannot speak of a joint command until you know which forces have to be commanded," he said.

Mr. Mitterrand again made it clear Sunday that France would not rejoin NATO's integrated command, from which the Galle withdrew in 1966 to pursue an independent defense policy centered on nuclear weapons.

In French military thinking, the nuclear deterrent is the ultimate defense of the French homeland; West Germany is a buffer against Soviet invasion, to the extent that French Phos and Hades land-based missiles can reach only as far as German territory. The French also have submarine-launched missiles that could reach Soviet territory.

Laurent Fabius, the former Socialist prime minister, suggested last week that France should extend its nuclear shield to West Germany in place of the medium-range U.S. missiles.

But some West German officials said that the suggestion was meaningless since Mr. Fabius failed to make clear whether the French missiles would be placed on Germany's eastern border or remain in France.

Michael Debaté, a prime minister under de Gaulle, meanwhile, rejected Mr. Fabius's proposal, saying in the National Assembly that the nuclear deterrent must remain national.

Mr. Mitterrand said earlier that France could not extend a nuclear guarantee, and Mr. Kohl side-stepped the issue, saying he did not want to interfere in a French internal debate.

The decision by NATO countries to accept the "zero-zero option" — eliminating U.S. and Soviet missiles with a range greater than 300 miles (500 kilometers) — has touched off a debate about France's military role in Europe and the credibility of its independent nuclear deterrence.

The fear of the eventual withdrawal of the American missiles shows in a binding fashion how much our security is dependent on that of our allies," said a recent report by the Groupe Renouveau Defense, a collection of senior military officers and diplomats close to the French Democratic Union, one of the major partners in the coalition governments.

"Let's stop beating about the bush," the report said. France "must say loud and clear that its defense starts on the Elbe and that it is ready in consultation with its allies to enlarge its strategic concept toward the front line."

Some West German officials privately criticize the French for over-reliance on the nuclear deterrent, while neglecting conventional defenses. Most of the French troops in West Germany are in the rear, and most of their tanks date from the 1960s, one military expert said.

In general, West German military and strategic analysts do not

see the French nuclear deterrent as an adequate replacement for the U.S. nuclear and conventional presence.

"The British and French nuclear forces are credible only for deterring a nuclear and just possibly a major conventional attack against the territory of these countries," Christoph Bertram, a former director of the International Institute for Strategic Studies, wrote in the current edition of Foreign Affairs. "Because of their minimal size they cannot be expected to provide extended deterrence to the alliance nonnuclear members."

The search for European defense options, in effect, means French-German options, since an attempt to revive the Western European Union as a vehicle for regional defense policy is impeded by British fears that this would alienate Washington.

France and West Germany have different reasons for getting closer. For France, it is a way of preventing West Germany's neutralism. For West Germany, it is the reassuring feeling of having a hinterland. At present, it cannot even depend on the use of French ports and air space to receive reinforcements in the event of attack.

Another spur to closer cooperation is demographic. In West Germany, the pool of draft-age men is expected to shrink to 130,000 in the early 1990s, compared with 250,000 today, making it increasingly difficult to maintain adequate conventional defenses.

Mr. Kohl's call for a combined military unit appeared to be in line with a policy designed to bring France as close as possible to the NATO planning process.

There already is significant military cooperation between the two countries. There are a couple of dozen joint manufacturing projects. The two sides have agreed politically to pool their resources in the production of a new attack helicopter.

French and West German officers already train together and learn each other's languages. And this fall, 47,000 members of the French Rapid Reaction Force are scheduled to take part in exercises in West Germany.

Still, West Germany's attachment to the United States and France's nationalistic concept of its defense will make the transition to a European defense "long and difficult," according to Jean-Pierre Chevènement, a former French industry and education minister who is now a leading spokesman for the Socialist Party.

The two countries frequently march "back to back rather than side by side," he said.

Nevertheless, he wrote last week in Le Monde: "France and Germany are in the same boat. It's time for the Europeans to decide their own defense for themselves. They have the means. Only the will is missing." The real mission of the French strategic nuclear force is to guarantee peace and stability in Europe. Peace is achieved through deterrence, and our vital interests do not stop at the Rhine."

VOTE: Soviet Voter Experiments

(Continued from Page 1)

find a platform, but the candidates were able to find something to say."

Another innovation this year protects a dissenting voter from being singled out before election officials. Previously, the candidate's booth for those who wanted to cross off the candidate's name said write in another or add comments on the ballot was to the side of the voting area. The voter had to set himself apart from the flow by walking to the booth.

This year, all voters were encouraged to walk through the curtained booth on their way to the ballot box.

"Psychologically, it is completely different," Miss Zulkova said, although she noted that some voters still insisted on bypassing the booth and dropping their unmarked ballot in the box.

Miss Zulkova cautioned against expecting any upsets.

"It is very unlikely that any of the candidates will not be elected," she said. "There may be more votes against them, but these people have proven their worthiness."

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GULF: U.S. Aide Reports East-West Effort to Devise a Peace Plan

(Continued from Page 1)

Several ships have been damaged since then by mines. The United States, in response to an appeal from Kuwait, has announced plans to put half of Kuwait's 22-lake oil fleet under the U.S. flag, protected by the U.S. Navy.

The Iraqi communiqué said Baghdad would continue to strike at Iran's economy, particularly oil supplies.

In Iran, Prime Minister Mir Husein Mousavi was quoted by Tehran radio as saying the Iraqi attack was carried out "with the help of facilities provided by Kuwait" as

part of a plan to "pave the way for America's presence in the region."

Officers Relieved of Duty

The U.S. Navy has announced that the captain, executive officer and tactical action officer of the frigate Stark were relieved of their commands because of dissatisfaction with their performance when the ship failed to react to the Iraqi fighter-bomber that fired two missiles into the ship, The Washington Post reported.

Pentagon sources were quoted Friday as saying that an investigation

ing panel headed by a rear admiral recommended courts-martial for the three, but the navy did not confirm this. Defense Secretary Casper W. Weinberger will have the final say on any courts-martial.

The officers are Captain Glenn R. Brindell, 43, the skipper since Jan. 23, 1985; Lieutenant Commander Raymond Gajin Jr., 35, the executive officer; and Lieutenant Basil E. Moncrief, 37, the tactical action officer.

Captain Brindell was ordered to the Atlantic Fleet's surface force in Norfolk, Virginia.

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| SENIOR TECHNICAL ADVISER | | United Nations Development Programme. |
| MANAGER INT'L BUSINESS DEVELOPMENT | | Multi-billion dollar (U.S.) Defense Contractor. |
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July 1, 1987

Tokyo: Money's New Capital

IN THE NEWS

Dec. 1, 1986: Japanese

Launch Offshore Banking

Tokyo's offshore banking market is given the green light, bound by strict operating limits and high tax rates.

March 2, 1987: Stock Prices

Reach a Record High

Declining interest rates brought on by a discount-rate cut by the Bank of Japan, the fifth in 13 months, sends the Nikkei stock average to another record high. This year, the Tokyo Stock Exchange became the world's biggest in terms of share value.

May 22: Overseas Trading

Of Futures/Options Starts

The government lifts a ban on overseas trading of futures and options by major financial institutions.

June 4: Timetable Is Set

To Open Financial Markets

The Finance Ministry announces a timetable for further opening of its financial markets, including plans to allow more foreigners to join the Tokyo Stock Exchange and to underwrite more government bonds.

June 9: Futures Contracts

Offered on Basket of Stocks

The first attempt at stock-futures trading since 1945 starts in Japan. Contracts are based on a basket of 50 shares on the Osaka Stock Exchange.



Robert Cook-McIntyre

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Euroyen Growth

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With the collapse of the Eurodollar FRN market this year, yen deals are expected to increase further.

Futures Comeback

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Changing attitudes at the Finance Ministry help expand the range of financial futures and options markets.

Urban Spread

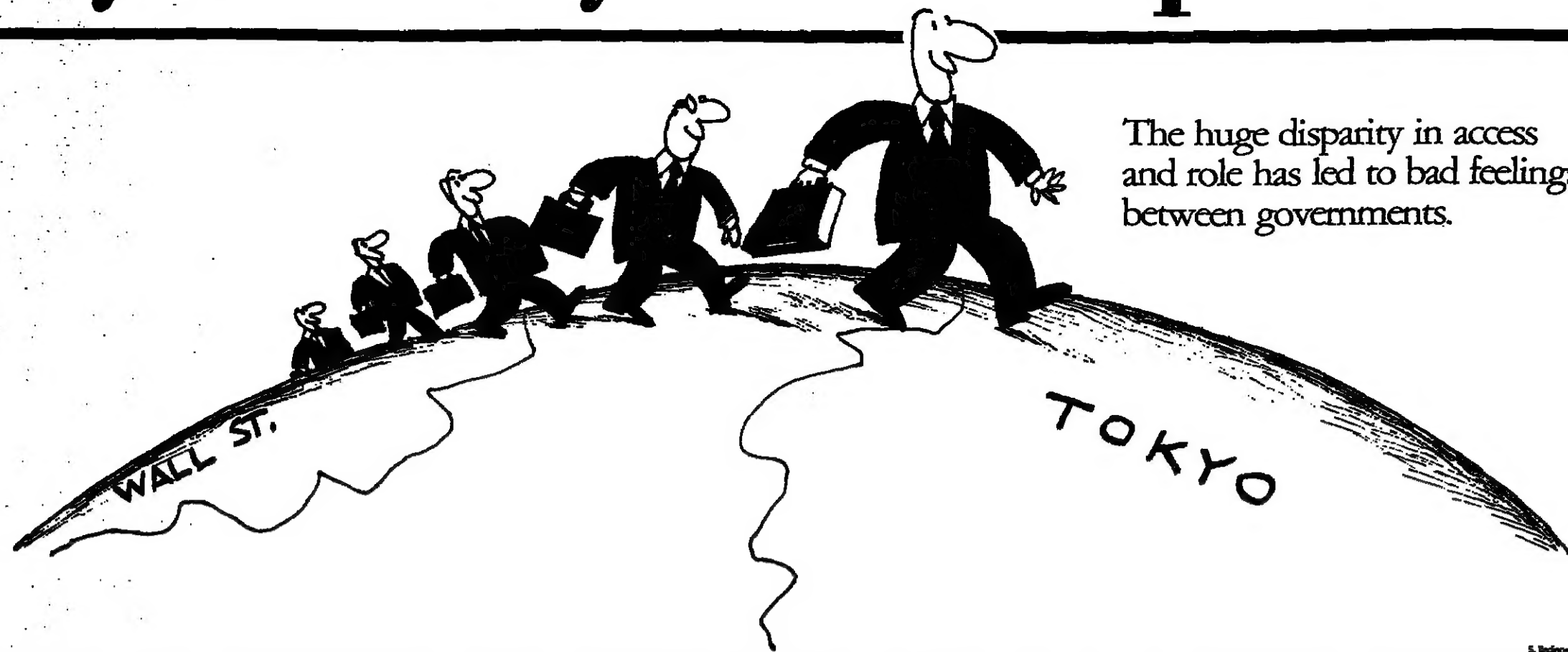
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A futuristic vision of the capital is taking shape as architects and planners put the musable to use.

The Economy

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The bulk of a \$42 billion spending package to revive the economy is going to public works and housing finance.



Creditor to the World

The huge disparity in access and role has led to bad feelings between governments.

Soaring Trade and Yen Nourish a Financial Giant

By John Burgess

TOKYO — The waves of TVs and Toyotas arriving in foreign ports in recent years kept the world well informed of Japan's rapid development as a class-of-its-own manufacturer. But until recently, few people abroad knew that another sector of the Japanese economy was advancing with almost equally unstoppable momentum, its banks and securities houses. Suddenly, the world finds that its four largest banks are Japan's four largest. So, too, for the four largest securities firms. The market value of the Japanese companies listed on the Tokyo Stock Exchange is now on a par with those of New York. Japan is the world's largest creditor nation, with \$180 billion in foreign assets at the end of 1986 and the ledger is growing daily.

So it was that the chairman of BankAmerica Corp., A.W. Clansen, was calling in bank offices in Tokyo early this month. He was in search of new capital for his ailing institution, which not so long ago reigned from California as the world's largest and most prosperous. He was in the right place. The Japanese like to turn magnanimous when former seniors fall on hard times, and there is plenty of money here.

Some of Japan's current financial clout came effortlessly, due to the drastic rise of the yen since 1985. This marked up balance sheet figures as expressed in dollars by more than 70 percent. But even without that help, Japan's banks

seemed certain to rewrite the rules by which money flows in the world. Financial power goes hand in hand with industrial power.

Today, old talk of Tokyo as a financial center to rival New York and London is finally coming true. This is so even though Tokyo remains a daunting environment of heavy regulation and sky-high operating costs — \$10,000 a month rent for an executive's apartment is common. It is also true even though Japanese markets are well behind New York's and London's in sophistication and variety of instruments offered. Like it or not, the business is here. The Japanese are opening the doors and foreigners are rushing in to take part.

The influx has been most marked for securities houses. At the end of 1984, there were 10 foreign securities firms licensed here. Now there are 36. The Japanese announced earlier this month that 10 more companies will be getting licenses soon. In addition, nine foreign trust banks have set up for business handling Japanese pension and corporate trusts.

The arrival of newcomers, however, is a trickle compared to the Japanese going overseas. Japanese securities houses are now major players in the New York markets, with two of them, Nomura and Daiwa, functioning as primary dealers and the Industrial Bank of Japan doing so indirectly through ownership of Aubrey G. Lanston & Co. Many of the major banks have bought all or a major piece of an American institution.

At the end of 1985, Japanese banks accounted for about a quarter of all international commercial lending. That share has grown substantially since then. Although they remain in the shadows in debt negotiations, leaving leadership to the Americans and Europeans, they are gradually becoming more confident in their role.

Japan is expanding its capitalization in the World Bank and has promised to recycle about \$30 billion more to Third World countries.

The banks grew to their present strength under the same type of protection and government guidance that was used so successfully to develop manufacturing. The Ministry of Finance carved up the market into sharply defined sectors and assigned groups to each — long-term credit banks, trust banks, large "city" banks, investment banks. Foreign banks were kept out of most of the business, except where their presence was unavoidable or helpful.

Regulation was eased in the 1970s as the Japanese players gained strength and experience to compete with the world and with each other. By the end of 1980, the government had retired most of the strict exchange controls. Money was free to come and go.

In the next few years, access to the financial markets here became a focus of trade tension. The United States wanted in and began pushing. But Ministry of Finance bureaucrats were reluctant. Why monkey with a system that had produced so successfully what every industrial economy wants

from its banks (and so few in recent years have been getting), namely, low-cost capital?

The ministry faced pressure from within, too. Japanese banks by now had outgrown many of the old controls. They wanted freedom to expand abroad and take part in markets that Japan had never developed.

Out of all this grew a 1984 document known as the "yen-dollar agreement," which was signed with the United States. It laid out a timetable to deregulate (to a degree) Japan's financial markets, "internationalize" the yen and end interest rate ceilings. It has been slow going: About 70 percent of all deposits are still in regulated accounts.

American pressure also helped open the long-locked doors of the Tokyo Stock Exchange. In February 1986, after years of apologizing that it simply had no room for new members, foreign or Japanese, the exchange took in six foreign companies.

Symbolic of the opening is the floor's lone foreign trading clerk, an American named Brian Kelly. He speaks Japanese and a language that even fewer foreigners have mastered, the complex hand signals by which buy and sell orders are conveyed in the heat of trading.

From the visitors' gallery, it is easy to lose him in the sea of Japanese faces. That is the state of affairs with foreign companies in general, as Japan's doors generally open only when the market is nailed down by domestic giants.

"Fighting for 10ths of a decimal point" of market share

Continued on page 8

U.S. Investors Wonder: Will Japanese Buy Wall Street?

By Leslie Wayne

NEW YORK — Wall Street has long been home to brokers and investors of all nations. But no single country has moved faster to expand its presence in America's financial capital than Japan.

Japanese brokerage houses are beefing up their operations here. Japanese institutions are buying into American investment banks and Japanese capital continues to flow into the equity and bond markets.

Many of the Japanese moves have been stunning: for instance, Sumitomo Bank's \$500 million purchase of an equity stake in Goldman Sachs & Co., one of the few remaining partnerships on Wall Street, or Nippon Life Insurance Co.'s 13 percent purchase of Shearson Lehman Brothers.

But, on a daily basis, the Japanese presence has been growing in ways that often do not capture headlines:

• Japanese firms have grown at a rapid-fire pace. Nomura's New York office, for instance, doubled in size last year to nearly 400 employees and other firms are growing at the same rate. This comes as firms branch into new areas of investment banking, including the secondary trading of debt and corporate and municipal finance underwritings. In the commercial bank arena, Japanese banks are the biggest of the foreign players in the United States.

• Japanese are major owners of U.S. government securities. About \$64 billion of government debt is held by Japanese and last December, two of Japan's Big Four on Wall Street — Nomura and Daiwa — were granted primary dealer status by the Federal Reserve Bank. Another primary dealer, Aubrey G. Lanston & Co., was acquired by a subsidiary of the Industrial Bank of Japan at the same time.

Fears that troubled trade relations between the United States and Japan as well as turmoil in the foreign ex-

change markets might slow down this investment were proved unfounded when the Japanese, once again, emerged as big players in the \$25 billion Treasury financing in May.

• Japanese purchases of American stocks continue to grow, with net equity purchases by all Japanese firms reaching \$5.6 billion last year. With the yen strengthening against the dollar, Nomura estimates this should swell to \$16 billion this year.

• Japanese have taken title to some of Manhattan's most prestigious real estate. A \$6 billion spending spree last year netted the Exton Building, ABC headquarters and the Tiffany building as well as a half interest in Benjamin V. Lambert's Eastside Realty, one of the nation's first real estate investment banks.

• Top talent from Wall Street and the Fed has been lured to Japanese firms. Stephen H. Asilrod, a former

Fed economist and once the central bank's second most powerful figure, is now vice chairman of Nikko's American operation, while Scott Pardee, formerly head of foreign exchange at the Fed, is now at Yamachi.

Indeed, many feel it will not be long before the Japanese are major players in every corner of Wall Street. "The Japanese know what they want to get involved in — everything," said Robert Brusca, chief economist at Nikko Securities and a former Fed official. William N. Griggs, a New York-based consultant to Japanese firms, added, "The Japanese are a new player who will be important in all areas that seem profitable — bonds, stocks and investment banking."

This, of course, has many worried. Some on Wall Street fear a shift in global financial dominance from New York to Tokyo, while others complain about the limited access to Tokyo's markets. And still others

simply fear the new competition. "Fear on Wall Street? You're damned right there's fear," said Perrin Long, an analyst with Lipper Analytical Services. "Most managements say they welcome the increased competition. But underneath, they are quite concerned."

The Japanese came to Wall Street nearly 20 years ago — "We're not Johnny-come-lately's," said Paul H. Aron, vice chairman of Daiwa Securities of America, which, with Nikko, Nomura and Yamachi make up the Big Four. Yet only recently has their financial clout become apparent. It is an outgrowth of several factors: Japan's traditionally high personal savings rate, a trade surplus that continues to widen and the limited number of investments available in Japan.

"The Japanese presence on Wall Street is the financial counterpart of their trade surpluses," said Richard N. Cooper, a professor of international

Continued on page 13

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Banks, Brokers Split On Liberalization Plan

Special to the IHT

TOKYO — Japan's big financial institutions are increasingly becoming like children at a party who cannot decide who will have the first cherry from the top of the cake. They can see enough cherries for everyone but are afraid that their friends might get a bigger, redder cherry than themselves.

As Japan's financial markets open wider and the government allows its own banks and securities houses to freely roam the world's money, stock and bond markets, old divisions and jealousy guarded rights in the domestic financial world die hard.

At the root of the problem is Article 65 of the Securities and Exchange Law, which makes a strict division between banking and securities business in the same way as its role model, the Glass-Steagall Act in the United States.

In the controlled Japanese financial markets of the past, such a rule prevented excessive competition and provided profits for all. Yet the concept is increasingly redundant in the markets where boundaries between different financial instruments are becoming increasingly blurred, and the concept of the global financial institution, offering all services to all men, is already with us.

Japan's major banks and securities firms see this, and want the boundaries lowered. Unfortunately they cannot agree yet how to go about it smoothly. The split of interests is mirrored in the Finance Ministry itself. The ministry's Banking Bureau and Securities Bureau are naturally concerned for the business of their own sectors of responsibility and are backed by powerful banking and securities house lobbies.

The International Financial Bureau gets caught between both sides in its attempts to free up the system and liberalize further to meet the demands of the United States and Europe.

Ironically, the bureaucrats have reached an understanding before the bankers and brokers. Ministry officials say that the three bureaus have reached a basic accommodation on what they could allow and who to allow it to.

In the latest June financial liberalization package the ministry announced that it would review further the existing distinctions between the two sides. A senior ministry official made clear, however, that this did not mean Article 65 would be revoked.

Officials have said that Article 65 would not disappear before Glass-Steagall. So far this has allowed the ministry to move ahead steadily in the knowledge that the U.S. act would not be gone soon. However, there has been recent speculation that the U.S. banking laws may be changed sooner than expected to free U.S. financial markets in the same way.

Two examples highlight how liberalization is aggravating the old fights.

The first concerns the continuing battle by Japanese banks to enter securities business at home. The banks have always been annoyed at the ministry licensing the securities arms of European banks but have lived with it because

U.S. banks were barred on grounds that they too had a Glass-Steagall ruling.

However, last December the U.S. Federal Reserve allowed Japan's Daiwa Securities and Nomura Securities to become primary dealers in U.S. government securities. Tokyo faced immediate U.S. congressional pressure to provide U.S. banks with the same rights in Japan.

In the June package, the Finance Ministry headed off U.S. threats to withdraw the Nomura and Daiwa licenses by inviting four U.S. banks — Morgan Guaranty, Chemical Bank, Manufacturers Hanover and Bankers Trust — to apply for Japanese securities branch licenses. By easing U.S. pressure on Daiwa and Nomura, the ministry inevitably escalated the old fight at home, Japanese bankers say.

The June package also included plans to establish a commercial paper (CP) market, following industry's long-standing demands for better access to raising short-term funds, and calls from abroad to develop Japan's weak short-term markets.

Both the banks and the securities houses formed separate committees to study how the market would work.

Further infighting is expected when Japan starts up its first financial futures market over the next year or two. Both sides will be keen to control business in the market.

Yet in some cases, the firms from the same sector cannot agree among themselves, further hindering liberalization plans.

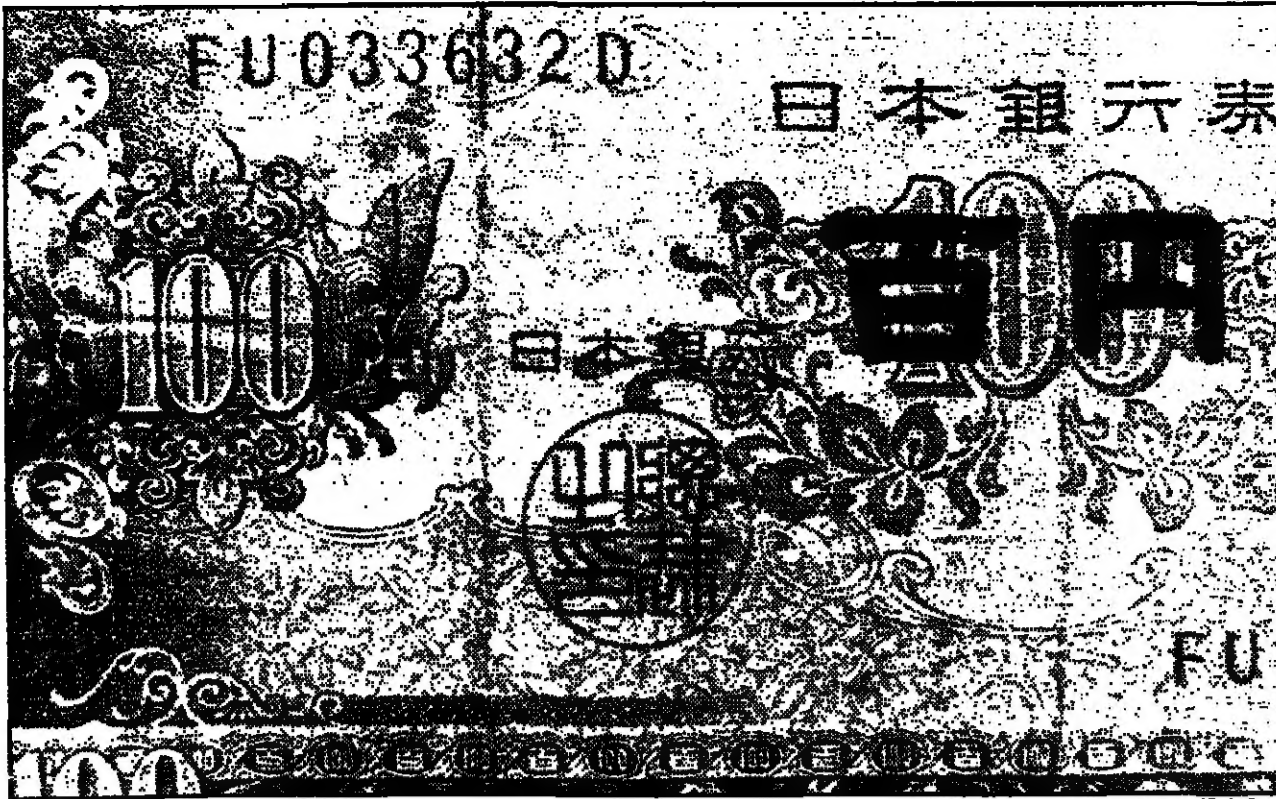
In the banking sector, the three long-term credit banks, the 13 big city banks and the seven trust banks all jealously guard their privileges from each other and from the many regional banks.

Regional banks can now issue bonds convertible into equity but the long-term banks objected to city banks getting the same privilege, and the city banks are still barred from this market.

The city banks, however, won over the long-term banks by winning the right to issue long-term mortgage bonds, giving them the ability to raise long-term money.

In the securities sector, the Tokyo and Osaka Stock exchanges fight for the new business that liberalization can bring. Osaka's establishment of a packaged stock futures contract on June 9 was an attempt to head off Tokyo's institution of the country's first full stock index futures contract, probably next year when the Securities Transaction Law is passed.

But internal squabbles apart, liberalization is allowing Japanese financial firms deeper and deeper into the world markets, the bankers and brokers said. The huge size of the main firms and their ability to raise or place capital makes them almost unbeatable in a totally liberalized market place. Nomura is about 10 times the size of its nearest British rival. Seven of the world's top 10 banks by deposit base are Japanese. Perhaps the biggest compliment to the power of the Japanese institutions is the latest U.S. rumor, reportedly begun by the New York Times and denied by the administration, that several U.S. superbanks should be created to effectively compete with the Japanese.



Apart from the fact that the appreciation of the yen against the dollar has attracted investors, it is the Euroyen market that facilitated this growth.

Further Growth Seen for Euroyen Market

Special to the IHT

LONDON — The growth of the Euroyen market has been nothing less than explosive. In 1982, a mere 70 billion yen of new issues were launched. In 1986, new-issue volume had soared to nearly 3 trillion yen, or roughly \$19.35 billion, taking 155 yen to the dollar as an average rate over the year, and the total for 1987 to the end of May had already reached over 2 trillion.

Last year, yen financing accounted for some 10.75 percent of all Eurobond new issues and U.S. dollar-denominated funding was pushed below the 35 percent mark — a historical low.

"The Swiss investor is no longer a mainstay of the Euroyen market," said Bill Grant, head of foreign currency bond trading at Citicorp Investment Bank in London. "We're seeing more and more interest from the investor base in the U.K., for example. Some of the more conservative pension funds are becoming aware of the yen market."

With the virtual collapse of the Eurodollar floating rate note market this year and a marked slowdown in the pace of fixed-rate Eurodollar new issues, the proportion of yen deals should increase further this year.

Apart from the obvious fact that the appreciation of the yen against the dollar has attracted investors to the market, it has been the steady liberalization of the Euroyen market that has facilitated this growth. In the spring of 1986, the Japanese Ministry of Finance allowed an increase in the proportion of the assets Japanese life insurance companies could hold in overseas securities from 10 percent to 30 percent. The eligibility standards for prospective Euroyen bond issuers have gradually

been relaxed to the point that any public sector entity with a single-A rating can issue and any private sector company with the same rating meeting a scale of capital ratio standards can tap the market.

Furthermore, a comprehensive range of issue structure has also been gradually accepted. And, as much as anything else, it has been the opportunities available with the development of the interest rate swaps enabling borrowers to exchange their yen for dollar liabilities that has encouraged a wide variety of borrowers to use the market.

With the success of the Euroyen market has come the ascendancy of the Japanese securities houses' London subsidiaries in the Eurobond lead management league tables. Largely due to its Euroyen bond lead management, Nomura International has this year become the new giant of the Eurobond market, capturing a market share of around 13 percent as of the beginning of June, more than twice the share of its nearest rival, the once pre-eminent Credit Suisse-First Boston. That figure does not include private placement business.

But there are signs that the pace of growth in the Euroyen market has slowed. During May this year only 219 billion yen of new deals came to the market, a marked decline from April's 580 billion yen.

"The reason was that the swap window closed," said Nobuo Fumihashi, an associate director at Nomura Securities. "Most recent issues have been lead-managed by Japanese banks because they can offer out-of-the-market swaps. They have the natural yen cash flows to do that." In other words, the cost of

paying dollars on the interest rate swaps involved in generating new Euroyen bond issues has simply become too expensive for the Japanese counterparties to such swaps.

Meanwhile, since March, Euroyen bond yields have ceased to track Japanese government bond yields. While the latter have continued a steady path of decline, secondary market Euroyen yields have proved extremely volatile. For example, at the beginning of this year there was a less than 200 basis point differential between Euroyen bonds and U.S. Treasury bonds. During May, this widened to as much as 600 basis points and by the beginning of June it had only narrowed to 400 basis points. (A basis point is a hundredth of a percent, or 0.01%.)

The reason for this is that Japanese government bonds, with their high liquidity, have proved the most natural home for disinvestors of the dollar, while the Euroyen market has been the focus of high-turnover switching activity, especially by the non-Japanese houses involved in the market. This, in turn, is linked with the saturation of many Japanese investors' appetites for Euroyen instruments in the wake of the glut of new offerings earlier in the year and a sense in the market that the dollar might have hit its low point against other currencies.

According to Kiyonori Miyoshi, an executive director at Daiwa Europe, "There have been large recent issues for Canada and Sweden, which have helped the [primary] market recover a little. But it's difficult to envisage the huge activity we saw at the beginning of this year coming back over the next few months." A sharp appreciation of the yen against the

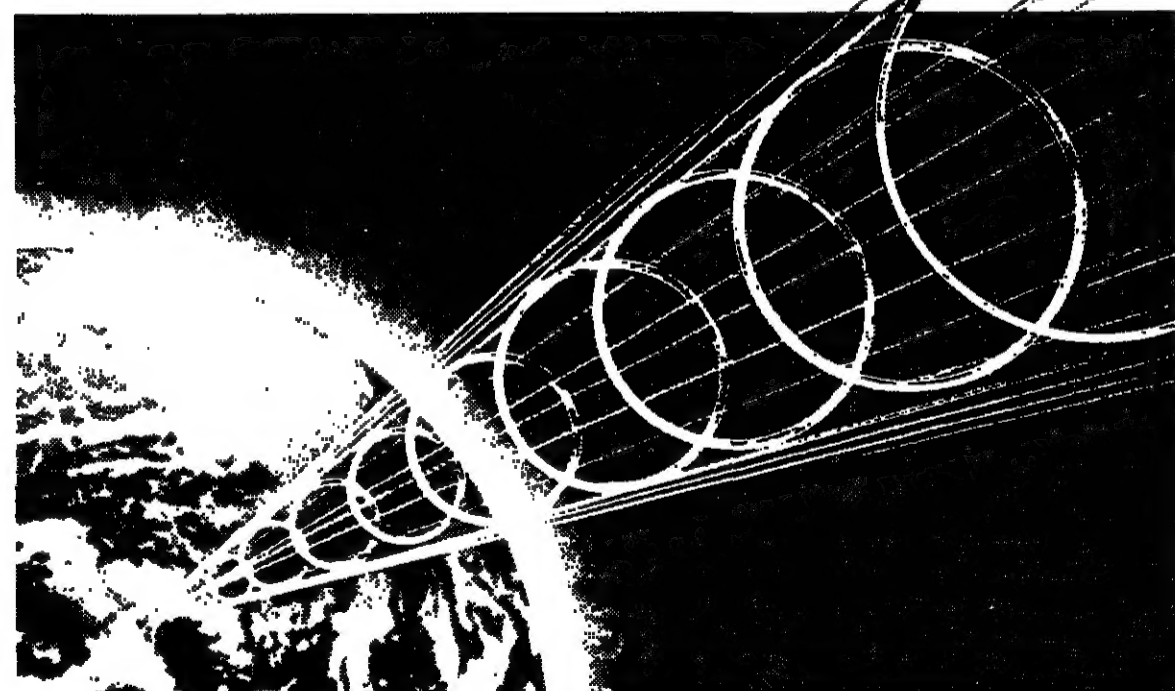
dollar would, however, encourage a spate of new Euroyen issues, Mr. Miyoshi pointed out, and the introduction of a Japanese government futures contract to the London International Financial Futures Exchange scheduled for the week beginning July 13 will improve the opportunities for hedging Euroyen bond positions. The introduction of a yen Eurocommercial paper market, for short-term yen corporate securities, should also further deepen the pool of demand for yen paper among investors later this year.

But the fact is that the yen has become, albeit very rapidly, an established Euroyen market factor, and nowadays that means sharply distinguished periods of feast and famine as investors change their allegiances overnight on a currency basis.

Apart from such market considerations, there are also signs that the Japanese authorities and financial institutions would like to see some of the greatly expanded international market for yen instruments repatriated to Tokyo, which has seen its "samurai" sector for foreign yen bond issues in the domestic Japanese market almost completely destroyed by the cost-effectiveness and greater efficiency of the Euroyen market.

In March, the World Bank pioneered a new instrument: the "daimyo" bond, or a yen issue launched in the Tokyo market that can be cleared by Ceditel and Euroclear, the two major Euroyen clearing houses. Some of the major Japanese securities houses are also advocating the registration of Euroyen bonds for sale direct into the Tokyo market, avoiding the 90-day lock-up period now in force.

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Trade Success Nourished Financial Giant

Continued from page 7

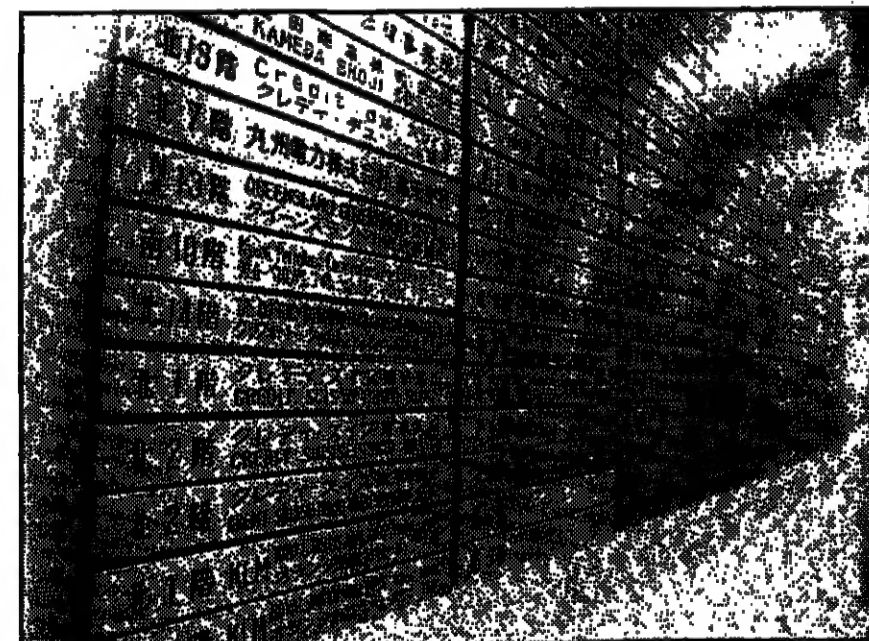
is how one foreign banker describes what is going on. Foreign firms' role in the stock exchange is believed to be in the 1 percent to 2 percent range. The foreign trust banks have managed to capture about 0.7 percent of the corporate trust business. Their success in pensions is hardly even measurable.

The point is that Japan now has so enormous a financial pool that even with shares like these outsiders can make money. The stock, bond and foreign exchange markets are booming, helped on by Tokyo's spot on the globe as open when New York and London are closed.

There is big business to be done, with the Japanese buying billions of dollars every month in Treasury and private securities in the United States — \$13 billion in long-term net outflow in April alone.

The local subsidiary of the New York firm Salomon Brothers has led the way for foreigners in equity size, pumping in \$300 million of capital to become the fifth largest investment bank in Japan. Although it has little hope of becoming more than a bit player in the Japanese market, it is not worried. For the present, said one executive there, the main constraint on business is finding qualified people.

The huge disparity in access and role has led to bad feelings between governments. Earlier this year, Britain threatened to clamp down on Japanese banks doing business in London if it



Foreigners are rushing in to take part in Tokyo's markets.

did not get its way on other trade issues. But it later modified the threat, realizing it would be shooting itself in the foot.

The fact is that, however unfair Japan's guarding of its own turf has been, the Japanese

are big in foreign markets in large part because those markets need Japan's business.

JOHN BURGESS is the Tokyo correspondent for The Washington Post.

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Capital Markets

U.S. Treasuries Take Lead in Diversity of Instruments Being Traded

Given the sheer size and power of its institutions, disputes over deregulation in Japan seem petty.

By Brian Robins

TOKYO — Deregulation of Japan's financial sector has brought with it basic changes to domestic and international capital markets as the recycling of its trade surplus has put Japanese financial institutions in the ascendant.

Given the sheer size and power of its institutions, the frequent disputes over deregulation in Japan seem petty, particularly in light of the access that Japanese groups have to international markets.

With the rise of Japan as an international finance center, there is a diversity of instruments being actively traded, the most notable being U.S. Treasury bills.

With all the attention paid to the boom in Japan's stock markets and the start-up of trading in domestic futures contracts, the burgeoning trading in U.S. Treasuries in Tokyo has gone all but unnoticed.

Following the sizable investment by Japanese institutions in U.S. Treasuries in recent years, trading in Tokyo has grown rapidly,

with a large number of foreign investment banks actively working to further develop the market.

Accurate figures are difficult to come by, although it is estimated that turnover now exceeds \$5 billion on an active day, with an average of around \$2 billion in a normal day's trading.

"Total trading in U.S. government bonds, including repurchase agreements, reached \$173 billion in April," according to Shichiro Harumi, deputy general manager of the foreign bond department at Daiwa Securities. "On average trading is between \$1 billion and \$2 billion a day."

"Two-way trading has developed tremendously. On a net purchase basis of foreign bonds, it has doubled every year, and trading volume has grown more than 10 times every year. Of the two-way trading, 90 percent is U.S. Treasury Securities."

The natural development of the trading in U.S. Treasuries in Tokyo is indicative of the growing importance of Tokyo as a regional — and global — financial center, although residual difficulties remain, especially in terms of access for foreign financial institutions.

Recycling Japan's burgeoning trade surplus has naturally thrown the spotlight on Japan's financial system, as well as highlighting the enormous power of Japanese financial institutions and investors in world capital markets.

The rapid growth in the U.S. Treasuries market in Tokyo points to the increasing influence of Japanese investors in key financial markets worldwide.

Equally, the attitude of Japanese investors to U.S. Treasuries plays an important part in the bidding process, and suggestions that Japanese institutions intend cold-shouldering an auction can have a material influence on tender prices.

In many respects, developments in trading in U.S. Treasuries in Tokyo have mirrored both the growing sophistication of Japanese investors and also their extreme dislike of any hint of currency instability. Currency uncer-

Top Eurobond Bookrunners
(1987 issues to June 16)

| | In \$ U.S. bil. | No. of issues |
|---------------------------------|-----------------|---------------|
| Nomura International | 10.12 | 70 |
| Credit Suisse First Boston | 4.84 | 44 |
| Deutsche Bank Capital Markets | 4.31 | 41 |
| Paribas Europe Ltd. | 4.14 | 41 |
| Yamaichi International (Europe) | 3.95 | 40 |
| Nikko Securities Co. (Europe) | 3.47 | 28 |
| SG Warburg Securities | 2.84 | 28 |
| Salomon Brothers International | 2.80 | 23 |
| Banque Paribas Capital Markets | 2.65 | 24 |
| Morgan Stanley International | 2.64 | 21 |

Source: Eurobond Bookrunners.

tainty has thus dampened new investment in U.S. Treasuries along with secondary market trading in Tokyo over the past 12 months.

With declining yields in U.S. government paper, there was an increase in investment in higher yielding U.S. paper, such as corporate bonds, with a gradual spillover into equity investments.

More recently, against the backdrop of the falling dollar, Japanese investors largely ignored U.S. paper, preferring to opt for non-dollar paper, particularly U.K. gilts.

"With the decline of the U.S. dollar, Japa-

nese investors refrained from participating in U.S. dollar-denominated issues," Mr. Harumi explained.

"As a result, some funds flowed into gilts and German mark instruments. But in late May, sentiment changed again, with a switch back to U.S. securities after an improvement in the outlook, and the trending down of the commodities index. So, if we feel interest rates are declining, we will move back in."

"With U.K. gilts, no one will offer/bid £100 million (\$167 million) [in Tokyo]. But with

U.S. Treasuries, any number of market makers will."

"What we've seen over the past 12 months is increased participation by secondary players, the second-level securities houses," said John McGivney of Smith Barney Harris Upham International.

"But with the market quieter overall, in the absence of any news you'd go to New York with your position. In that sense, a lot of the regular daily trading has gone back to New York."

Trading activity in U.S. Treasuries in Tokyo has mirrored the changing pattern of investment in offshore paper by Japanese investors, while access by foreign brokers to the market in Japanese government paper reflected many of the continuing difficulties of foreign institutions in getting full reciprocal access to Japan's financial markets.

Following sustained pressure, some ground was given earlier this year with the decision to boost the overall participation of foreign houses in Japan's government bond underwriting syndicate.

From the earlier level of only 1.19 percent of each new issue for all foreign brokers, it was agreed to boost their total share to 5.725 percent.

At present, the Ministry of Finance operates a dual system for issuing government bonds. In broad terms, it uses a tender system for short-term issues, usually of three or five years' duration, with a fixed syndication system for the much larger volume of 10- and 20-year government paper.

Under the fixed syndication system, the government severely limited the participation of foreign houses.

Government officials have repeatedly said that the reason they prefer the fixed syndicate is to ensure that the large volume of government bonds can be readily absorbed, irrespective of market conditions.

If all government bonds were issued by tender, this could create deficit funding diffi-

culties, the Ministry of Finance says, especially when interest rates are trending upward.

But with the growing participation of Japanese financial groups in the U.S. primary market, with three Japanese groups holding primary dealers licenses, pressure has mounted for foreign brokers to get a larger share of the new issues market for government debt in Japan.

Limited progress has been achieved, with the underwriting syndicate agreeing, at the behest of the Ministry of Finance, to reweight the syndicate slightly to give foreign securities houses a larger share of the pie.

In addition, the ministry has agreed to put a limited amount — 20 percent — of 10-year bonds up for tender, instead of the former syndication system, in a bid to circumvent some of the present opposition.

Already, in the auctions for short-dated government debt, the bidding by foreign houses has been active, with Salomon Brothers bidding for 40 percent of the total in one tender alone, and the number of times when Japan's dominant top four securities houses have been knocked out of the main positions in the tenders is rising.

The bulk of the government's bond issuing program is in long term — 10- and 20-year paper — with a comparatively modest amount of shorter-term three- and five-year bonds issued each year.

The other fundamental area where the Ministry of Finance has given ground is in allowing foreign banks to establish securities branches in Tokyo. Earlier, a limited number of European banks were granted the privilege, with some U.S. banks also now allowed to follow suit. By permitting foreign banks into the securities sector — banking and securities industries are still kept apart, as is the case in the United States — the authorities have created a situation where it is only a matter of time before they give further ground and allow a watering down of the lines of demarcation between Japan's big banks and securities houses.

Savings, Surplus Help to Sustain Capital Flows

Special to the IHT

TOKYO — It has become commonplace to view Tokyo as the third leg of the tripod that supports the world's rapidly developing global marketplace. No other city can provide both the critical Asian time link between New York and London and an economic hinterland big enough to sustain the huge capital flows off which the modern markets feed.

Latest statistics, combining London national product and the London-Exxon tanker, show that in the 1980s, Tokyo has grown at an

average annual rate of 18.3 percent, which is much faster than the other two.

The fact that Japan has the world's second largest gross national product, one of the highest savings rates and a massive current account surplus is also helping turn Tokyo into a key supplier of long-term capital for the world.

Significantly, Bank of Tokyo research shows that an average annual \$44 billion outflow from Tokyo has been funded half by Japanese savings and half by long-term foreign capital parked in Japan.

Such overwhelming liquidity tends to produce rapid results whenever the authorities open another door in the increasingly liberalized Tokyo markets.

Last December, despite disappointingly high tax rates and strict control to stop leakage into the domestic market, Japanese banks poured surprising amounts of money into their new accounts in Tokyo's offshore banking market.

In one month, total assets rose to over \$115 billion, almost as big as those of local competitors Hong Kong and Singapore, and about half the size of New York's, although well behind London's \$750 billion.

However, major barriers to full capital flow and freedom of financial action remain. The problem of financial liberalization in Japan is probably entering an important new phase.

Like the argument over the huge Japanese trade surplus, the arguments over Japan's highly regulated financial markets have tended to be characterized as a fight by the United States and, to a lesser degree, Europe to force the Japanese Finance Ministry to liberalize its policies.

In some markets, such as the stock market, the most vocal complainants are foreign firms. The Tokyo Stock Exchange, even if it adds a few more foreign brokerage seats next May, will have only around a dozen.

This is far too few around a dozen to merit serious consideration as a full partner with Wall Street and the recently revitalized London Stock Exchange in the rapidly ap-

pearing 24-hour trading of major corporations' stocks, foreign brokers say.

But as Japanese companies and financial institutions have become global powers and market movers in their own right, pressure is coming increasingly from within Japan for faster change.

The announcement this month that a commercial paper market will be created was largely due to strong pressure from Japanese companies for wider access to raising short-term capital.

Central to the whole liberalization theme is the management of the government's own debt, which is now valued at around \$1 trillion. Funding the state debt in Japan is still a relatively rigid process. Each year, the Finance Ministry sets a funding target that it must meet. To guarantee that any bonds it issues are taken up, it negotiates and agrees on monthly terms with a syndicate of major Japanese institutions, now including several foreign firms that are allowed a tiny proportion of each issue.

The ministry has gone quite a way to freeing up the system by creating a semi-auction for over 50 percent of the bonds it issues. The ministry says that Japan's closed one-year budget system, which legally prevents it from issuing bonds to fund spending outside the current budget year, makes it impractical to introduce the full price auction system that its critics say would open the market to U.S. and European buyers and ultimately reduce the cost of funding to the government.

Shoichi Royama, an economist, goes further. He says that the authorities will never be able to smoothly manage their own accounts and to handle the increasingly internationalized yen markets without a fully developed treasury bill market.

Such a high-grade, short-term government paper market would provide an essential tool to fine tune the capital markets without relying too heavily on interest rate monetary policy. The current, very limited use of treasury bills is less than useless, he argues, because they carry such low interest that the Bank of Japan ends up holding almost all of them after commercial investors shy away.

On other issues, last year's working paper prepared by the Institute of Foreign Bankers in Tokyo still provides an essential summary of the outstanding problems.

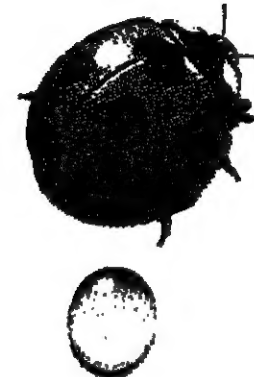
The bankers' main complaint is their very limited access to yen funding. To solve this, they have called for a fully liberalized yen interbank market, comparable to the New York Fed funds market, or the London Eurodollar market.

Interest rates on deposits should be deregulated down to an amount of 10 million yen (\$69,444), they said. Otherwise, Japanese banks retain an unfair advantage in attracting cheap deposits.

The Bank of Japan should be allowed to become a lender of last resort and a provider of liquidity to foreign banks, and existing limited discount facilities should be much broader.

The yen must be fully internationalized and barriers between yen funding in domestic and overseas markets totally removed, they said. A significant reflection of the domestic difficulties related to this is that Japanese firms still prefer to raise the bulk of their funds abroad, about \$27 billion out of a total of over \$50 billion last year.

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TOSHIBA

Foreign Traders Reconsider Tokyo Bourse

By Andrew Horvat

TOKYO — Less than three months ago, it looked as if a trade war might break out between Britain and Japan over the small number of British brokerages with seats on the Tokyo Stock Exchange. During a visit to Tokyo earlier this year, Michael Howard, as Britain's junior minister of trade, told officials of Japan's Ministry of Finance that "if we don't get what we want on access to the stock exchange, we shall use our reciprocity powers."

Americans, though less vocal than the British, were known to be equally dissatisfied with the difficulties faced by foreign firms wishing to get on the 93-member exchange. At present, there are six foreign brokerages with memberships on the Tokyo exchange: Merrill Lynch, Morgan Stanley, Goldman Sachs, S.G. Warburg, Vickers da Costa and Jardine Fleming.

Last year, the six had to pay the equivalent of \$7 million each for what they were told would be the only time that foreigners would be allowed to enter. A year earlier, the refusal of a Japanese company to sell its membership to Merrill Lynch resulted in accusations of discrimination against foreigners. The more recent claim by exchange officials that "there is no room" to accommodate foreign traders on the exchange floor has also caused a number of foreigners here as discriminatory.

A few days before Mr. Howard's departure for Tokyo in March, the British government took the unusual step of putting into effect certain parts of a new financial act several months ahead of schedule in order to allow British officials to withdraw the licenses of financial institutions from countries that do not provide equal access to

'An operation that is successful as a branch office may not be as profitable once the firm gets a seat on the exchange.'

British firms. The British appeared to be giving the impression that they were willing to take action against Japanese banks and insurance companies in order to push their case for more seats on the stock exchange.

In the view of Mr. Howard, S.G. Warburg was the only pure British brokerage on the Tokyo Stock Exchange. This compared with four Japanese houses with seats in London. The Japanese insisted that Vickers da Costa and Jardine Fleming should also be counted as British, but, according to Mr. Howard, the former was under U.S. control and the latter was a Hong Kong firm.

But less than three months after Mr. Howard's trip, foreigners seem to have stopped complaining about their inability to become members of the exchange. Some are even having doubts about the real purpose of the trip. At present, foreign brokers in Tokyo are having second thoughts about the importance of exchange membership altogether. Branch-office status is far more profitable, they say.

"You need huge volumes to justify the costs of membership," said a foreign broker, who asked not to be identified by name.

A foreign securities analyst, who also spoke on condition of anonymity, said: "An

operation that is successful as a branch office may not be profitable once the firm gets a seat on the exchange." Indeed, the trading record of one foreign firm admitted to the Tokyo exchange last year has been close to the bottom of the list, suggesting that its activities in Tokyo cannot be too profitable.

To be sure, there are a number of advantages to membership for a foreign firm. Brokers say that for Morgan Stanley, a major player that takes huge trading positions on its own, not having to pay brokerage fees amounts to a major saving. But these same brokers say that the 27 percent commission levied against nonmembers is not too much when measured against the small volume of transactions of many foreign brokerages in Tokyo.

All the same, brokers point out that it is the huge branch networks of the big four Japanese brokerages — Nomura, Daiwa, Nikko and Yamaichi — that provide them with the solid base to make good commissions. Many smaller firms on the exchange do nothing but trade on behalf of others, making their money on the commission they charge to nonmembers.

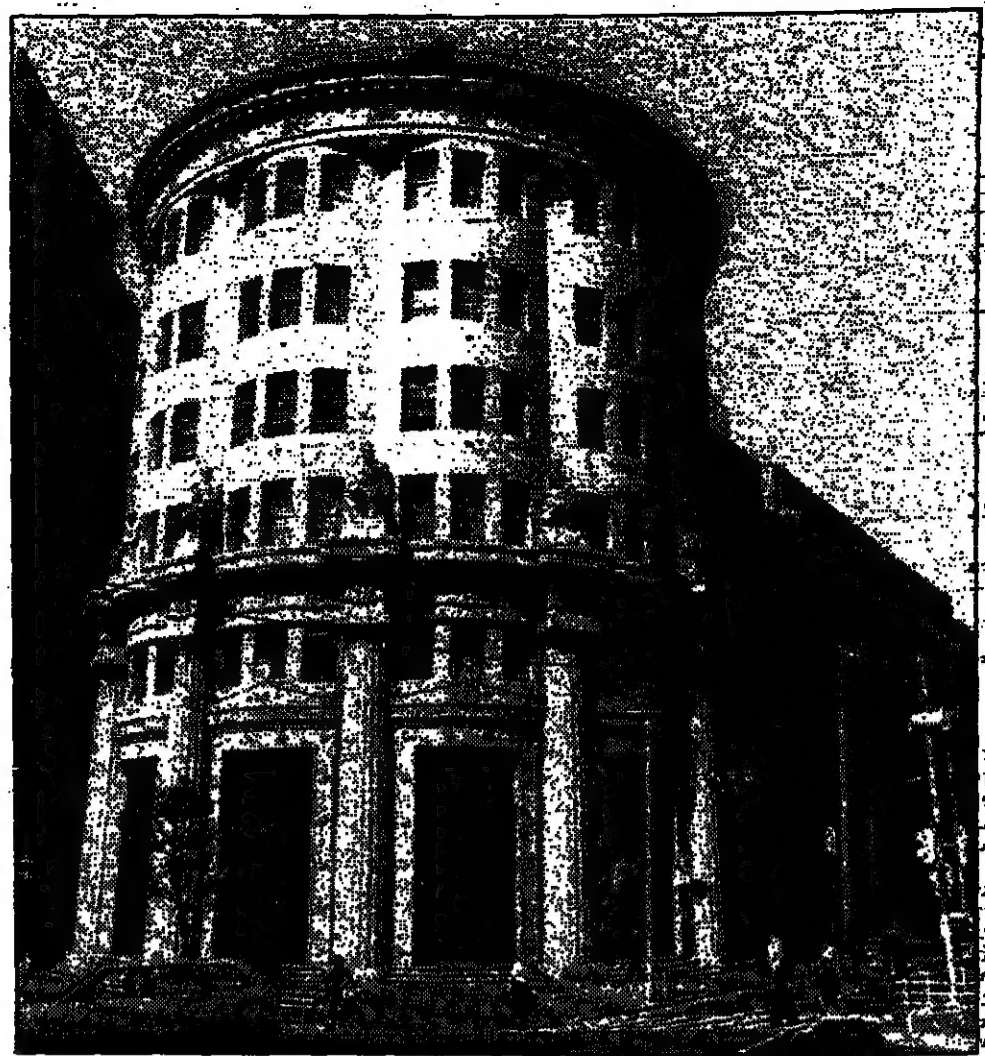
This view appears to be borne out by news reports from London that British officials had been assured by their Japanese counterparts during recent bilateral meetings that three British firms, Schroders, Baring Bros. and Kleinwort Benson, would be granted exchange memberships next year.

This has led to speculation that Mr. Howard used the membership issue in order to obtain leverage against Japan in a dispute concerning Cable and Wireless, a British telecommunications company, which was having difficulties in its bid to become part of a consortium aiming to compete against KDD, the Japanese overseas telecommunications monopoly. Although Mr. Howard insisted at the time of his visit that the exchange and the Cable and Wireless issues were not linked, he appeared careful not to be too clear, saying that "the way in which the C&W matter is dealt with will very much affect the climate of relations between our two countries."

Foreign brokers here say that the decision by the Ministry of Finance to accept applications for securities branch licenses from 10 foreign banks, including the European subsidiaries of four American banks, is far more significant than the prospect of stock exchange memberships for possibly 10 more foreign firms.

In fact, the announcement in early June raised the possibility of requests by Japanese banks to the Ministry of Finance for similar treatment. Far from being discriminated against, the U.S. banks, albeit through their European subsidiaries, will soon be able to trade in securities in Japan, something Japanese banks are not allowed to do, either at home or in the United States.

ANDREW HORVAT is The Independent's Tokyo-based correspondent.



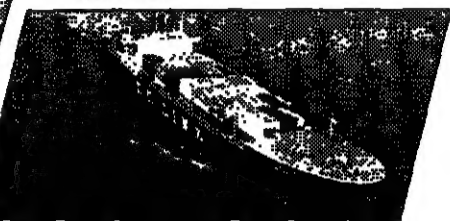
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Newcomers Weigh Paths to Future Returns

Special to the IHT

TOKYO — For foreign financial institutions in Japan there are two obvious questions: "Am I making a profit?" or "Will I make a profit in the future if I stay long enough and spend enough money here?"

But as Japan's financial markets open further and Japanese institutions knock louder on the doors of U.S. and European markets, another and perhaps more important question arises: "Can I afford to stay away?"

The major foreign institutions that have decided they cannot afford to stay away — and that means basically all of them — seem to have reached two different conclusions.

For some, the answer has been

to look for near-term profit. The strategy is to find a suitable area of investment or banking business where they excel, carve a niche among the less-experienced Japanese competition and reap a modest but acceptable profit, with the

banks in their own country, on their own terms.

It is worth remembering, however, that the hard time that have forced the foreign institutions in Japan to make such a choice are very recent.

The main problem of foreign securities firms is that they have been too late.

hope of vast future returns. The nine foreign trust banks operating in Japan are following this strategy.

For others, the solution has been to think in the long term and go for the vast future returns, at the cost of short-term losses if necessary. The example par excellence of this strategy has been Citicorp's aggressive campaign to compete with the big Japanese city

There were no real complaints from foreign securities firms 10 years ago because they were only a handful in Japan. The marketplace was considered relatively primitive compared to Wall Street or the European bourses, and the foreign banks were able to make very healthy profits in Japan.

In the early 1970s, the foreign banks were the sole suppliers of foreign exchange to Japan's

booming industry since Japanese banks were forbidden to take part. Returns were very high and only began to slip when the borrowers found new ways of raising capital, mainly through bond issues.

The foreign banks began to complain only in the late 1970s. The watershed was a change in the foreign exchange law in 1980, which opened this impact loan business to Japanese banks, thereby breaking the foreign banks' monopoly and sending annual profits plummeting. By the mid-1980s, perhaps half of the 80 or so foreign banks in Japan were posting losses.

The main problem of foreign securities firms is that they have been too late. In those 10 years, Japan's big four securities firms — Nomura, Daiwa, Nikko and Yamaichi — grew fat on profits from managing investments in what has become the biggest pool of money in the world.

It is also their market and their language. The recent decision of Vickers da Costa to produce bilingual research on the Japanese market, for Japanese investors was unusual. Vickers is Citicorp's 30-

percent owned securities arm in Japan.

Ignorance works both ways, however, and foreign securities firms offer foreign investors the obvious vehicle to enter Japan while offering Japanese investors the expert knowledge of foreign markets that the Japanese brokers often lack.

Such advantages give the securities firms better profit potential than their banking brethren. Profits last year of 12 major foreign securities firms generally rose by multiples of two, three and four. Goldman Sachs was the only one to make a loss. Salomon Brothers profits were six times higher than those in 1985.

Fairly generous interpretation of Japan's new investment advisory law and the Finance Ministry's decision this month to speed up award of investment management licenses for 17 foreign firms have also encouraged the securities sector.

The major complaint of the foreign securities firms that they are not allowed enough seats on the Japanese stock exchanges, by which they mean Tokyo, may have been satisfied for the time being. This month, the Finance Ministry announced that the Tokyo Stock Exchange would add more seats and consider foreign applications generously. Senior ministry officials declined to say how many seats on the grounds that the Tokyo exchange is an independent body.

But, following threats — later modified — of British retaliation against Japanese firms in London should more seats not appear, it has become clear that perhaps a dozen or so new foreign and Japanese brokers, including three British houses, will join the six foreigners already trading on the Tokyo exchange by around May next year.

The foreign banks may have to wait much longer before Japan can supply them with the fully liberated short-term money markets and interest rates that they say they must have to compete properly. Without such an open market, the Japanese banks retain the tremendous advantage of attracting cheaper deposits, thereby making a much higher margin on the same lending rates.

The foreign banks have also been disappointed at the failure of the authorities to lift all taxes from the six-month-old Japanese offshore banking market. Until they do, they say, it makes little sense for foreigners to hold offshore accounts.

In such circumstances, most foreign banks' banking arms sit back and look to foreign exchange dealing profits to keep them going.

The six American, two Swiss and one British trust banks, however, have found their niche and are looking to profits in the first two years or so of business in Japan. The prospect of more than \$400 billion of Japanese pension funds ripe for management in 10 years time offers them much hope.

Meanwhile, their experience has given them the ability to offer much better planned returns than Japanese firms, ensuring them of a very viable business, senior managers at the banks say.

And then there is the case of Citicorp. Under the leadership of its chairman, John Reed, Citicorp through its main financial powerhouse Citibank and over a dozen smaller affiliates and subsidiaries has challenged the domestic retail banking industry head on. As well as its corporate and investment banking, it offers ordinary Japanese financial services ranging from stocks to credit cards. It is the only foreign bank to offer such a comprehensive service.

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Asahi Shimbun

Stock Exchange Boom ■ Controlling Risks

Big Four Securities Houses Are New Symbols of Economic Strength

Export-dependent manufacturers are putting their funds into the stock market.

By Andrew Horvat

TOKYO — Until as recently as last year, Toyota, Honda, Sony and Panasonic were the symbols of Japan's economic strength. This year, the names by which Japan is known overseas are about to change. The new standard-bearers of Japanese success are Nomura, Daiwa, Nikko and Yamaichi, this country's Big Four securities companies.

On March 31, the end of the Japanese fiscal year, Nomura, Japan's largest securities dealer, was poised to overtake Toyota, Japan's largest automobile maker, as the nation's most profitable company. Nomura's pre-tax profits came to ¥242.2 billion (about \$1.7 billion), an increase of just under 63 percent over the year before. Daiwa, Nikko and Yamaichi achieved even greater percentage gains.

The change in the fortunes of both the financial and manufacturing sectors can be traced to Sept. 22, 1985, the day the finance chiefs of the United States, Japan, Britain, France and West

Germany decided in New York to realign exchange rates. The subsequent boost in the value of the yen made Japanese manufactured exports suddenly less competitive. In order to earn the same amount in yen today as in September 1985, a Japanese manufacturer must charge more than \$1.70 for the same export product he could sell for \$1.00 some 20 months ago.

Rather than plow their declining dollar earnings into plant and equipment, Japan's export-dependent manufacturers put their funds into the stock market, where at least they could recoup some of the losses they were taking in order to maintain market shares overseas.

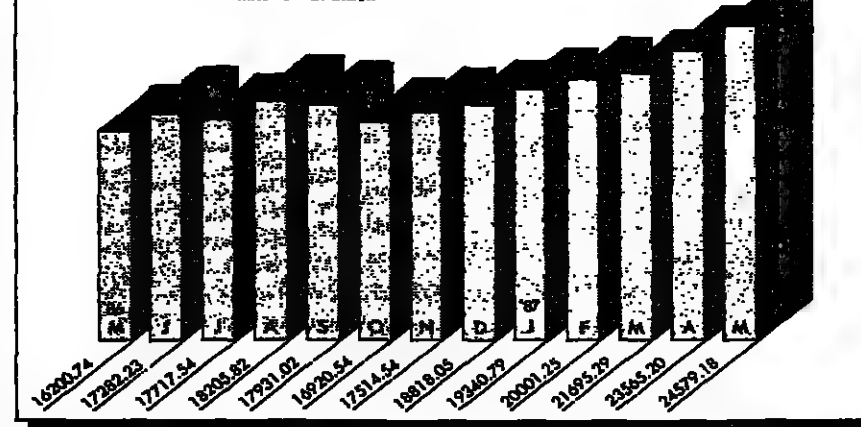
Five interest-rate cuts, while doing little to stimulate domestic demand, have accelerated the flow of funds into the market by discouraging individuals from putting their savings into bank accounts, some of which were paying barely 1 percent.

Although critics warn that the Tokyo market is overheated and that there is too much money chasing too few stocks, for the average Japanese the *zai-tekku* (finance-technology) boom has been a bonanza. The value of the Nikkei index of 25 leading stocks has risen by nearly 50 percent in nine months. Thanks to the increase in the value of the yen, the Tokyo Stock Exchange is now the biggest in the world in terms of share volume.

The greatest beneficiaries of the *zai-tekku* boom have been the Big Four securities companies, which together account for 46 percent of all share trading on the exchange. The suddenly increased dollar value of the funds at the disposal of the Big Four has made them formidable competitors all over the world. Nomura manages some \$237 billion worth of customer assets, while the total share of the other three players comes to more than \$500 billion. All four firms have plans to increase the numbers of both domestic and foreign branches this year.

Tokyo's Soaring Stock Exchange

Nikkei Stock Index



Last year, for example, Nomura climbed into second place in Eurobond managing, just behind Credit Suisse-First Boston. At the same time, the Japanese brokerage nearly quadrupled the profits of its London operation from £15 million to £54 million. The advantages of being the largest securities house in the world were easily apparent two months ago, when British papers warned their government not to target Nomura Securities for reprisals in a trade war brewing between Japan and Britain because, were Nomura to move out of London, it would have taken with it a huge flow of funds, plus the jobs of some 300 British employees.

Ascribing special characteristics to the four giant brokerages is something of a national pastime. The adjectives most often applied to Nomura are "ruthless but talented."

The employee of a firm that recently made a

public offering recalled that all of his executive colleagues at every level from section chief all the way up to president had been contacted by a Nomura man.

Nomura's nickname is "nomura" (a foreign word used in Japanese to mean quota). A visitor to a provincial branch of Nomura dis-

covered that the "perpetually smiling" sales-ladies were anything but relaxed. They are obliged to meet a group quota of about \$30 million in sales per month.

Among Nomura's innovations is the so-called "heaven-or-hell" bond, which is issued in one currency but redeemed in another, with the issuer taking a huge risk by fixing the rate of exchange at the time of issue.

Daiwa, which is No. 2, is seen as being much like Nomura only less so. The firm takes credit for having pioneered the shogun bond (issued by foreigners in Japan to raise dollars) and has taken an aggressive role in samurai bonds (public issues in yen by foreigners), managing nearly half of all issues in Japan last year.

No. 3 Nikko has a reputation for functioning very much like a bank. It has begun to stress the portfolio business and has introduced a computer-tracked index fund.

"The others don't offer this," said one Nikko official, who maintained that in just 15 months, the Nikko-BARRA fund has attracted the equivalent of \$3.5 billion.

Yamaichi is the oldest of the four. One fund manager in Tokyo recalled a time, before a serious stock market tumble in 1963, when Yamaichi was the largest. "They are the most gentlemanly of the four," he said.

Yamaichi has pinned some of its hopes on

foreign expansion and has plans to open an office in Shanghai. While admitting that there would not be much business in China for a while, a spokesman for Yamaichi's planning department stressed that "when the Chinese do things, they do it suddenly and with style." Yamaichi hopes to manage Eurobond issues for Chinese corporations.

Although each firm has its special characteristics, all have taken advantage of their size. In spite of statements to the contrary, there have been indications in the past of a tendency to "promote shares." One of the firms was once quite open about its so-called "share-of-the-week" program, by which it had all its salesmen push a single stock. Simply knowing the name of the promoted share could mean millions in profits.

Another practice popularly known as catch-ball — placing prearranged buy orders between branches for a stock being underwritten by the company — came to light during a trial in the last decade. But, as a foreign analyst put it, what was the market leaping upward as if there were no tomorrow, catch-ball has more or less died out. "Why bother with such things when everyone is making money?"

ANDREW HORVAT is The Independent's Tokyo-based staff correspondent.

Futures Markets Make a Comeback

By Brian Robins

TOKYO — With the role of Japanese investors pushed to the fore of international capital markets, opportunities within Japan for controlling much of these risks are remarkably underdeveloped.

"There are few ways of easily going short in this market," the head of one foreign securities house in Tokyo said.

Historically, Japan had the first futures market in the world, beginning in the late 1700s for farmers to hedge against movements in the price of rice. With the price of rice under government controls, there is no longer any need for such a market.

The conservatism of the Ministry of Finance has ruled out any development of domestic futures and options markets, at a time when they are needed most by Japan's big investors.

Japan's industry, as the biggest buyers of most commodities worldwide, is unable to adequately hedge its position in domestic commodities markets. Similarly, the range of financial futures or options markets available in North America or Europe have not developed in Japan. But the attitude of the authorities, primarily the Ministry of Finance, is slowly changing.

Trading in government bond futures began last year, and the Osaka Securities Exchange just opened trading in its new "Stock Futures 50" index earlier this month.

At the same time, Japan's financial institutions have been given approval to directly trade in financial futures markets overseas, with industrial groups expected to receive approval as well in the not too distant future.

Concern over the investment risks involved, particularly for smaller investors, has resulted in the Ministry of Finance adopting an extremely cautious stance to date.

Now, however, given the significant liability of Japan's institutional investors to both currency and interest rate risks, it has decided to give its big financial institutions a freer hand.

The start of trading in the Osaka Securities Exchange's Stock Futures 50 contract will overcome an unusual anomaly, whereby overseas investors have been able to trade in the Nikkei 225 index in Singapore, punting on future movements of the Tokyo Stock Exchange's dominant index, while investors in Japan have been able only to channel their funds directly into stocks or bonds.

The need for institutional and corporate investors to have access to more sophisticated markets to hedge their exposure lies behind part of the push by the Ministry of Finance to begin opening the doors. Even so, both the government bond futures market and the Osaka Futures 50 contracts specifically provide for physical delivery unless the contract is closed out before expiry.

In addition, potential players in the new Osaka contract — the Tokyo Stock Exchange will have a Nikkei 225 contract up and running next year — face the burden of onerous transaction costs, far greater than involved in gaining access to other markets in overseas centers.

One problem of the Osaka Futures 50 is the fact that it is only a limited basket of underlying equities, unlike the Nikkei 225, which is based on that number of underlying issues.

"It is a warped basket since it is not a broad basket tracking the market," Mark Aizawa of Solomon Brothers, equity sales and trading, said. "Certainly there are problems, but it is the only game in town."

"Financial institutions can go

Japan's industry, as the biggest buyers of most commodities worldwide, is unable to adequately hedge its position in domestic commodities markets.

offshore, but individual corporations cannot. Individual investors will be active as well."

Initially, the participation of foreign groups in the new Osaka contract will be limited, although this is believed to be largely a procedural issue, which will soon be rectified.

The start of trading in the Osaka contract has been extensively delayed due to anticipated changes to Japan's taxation system, which would have an impact

on the way this market was organized.

Since these plans have largely been shelved, the Osaka Securities Exchange decided to go ahead anyway, particularly following the recent move to give Japanese institutions direct access to foreign financial futures markets.

Along with these developments, the Ministry of International Trade and Industry is gradually moving to try and reorganize Japan's multitude of commodities

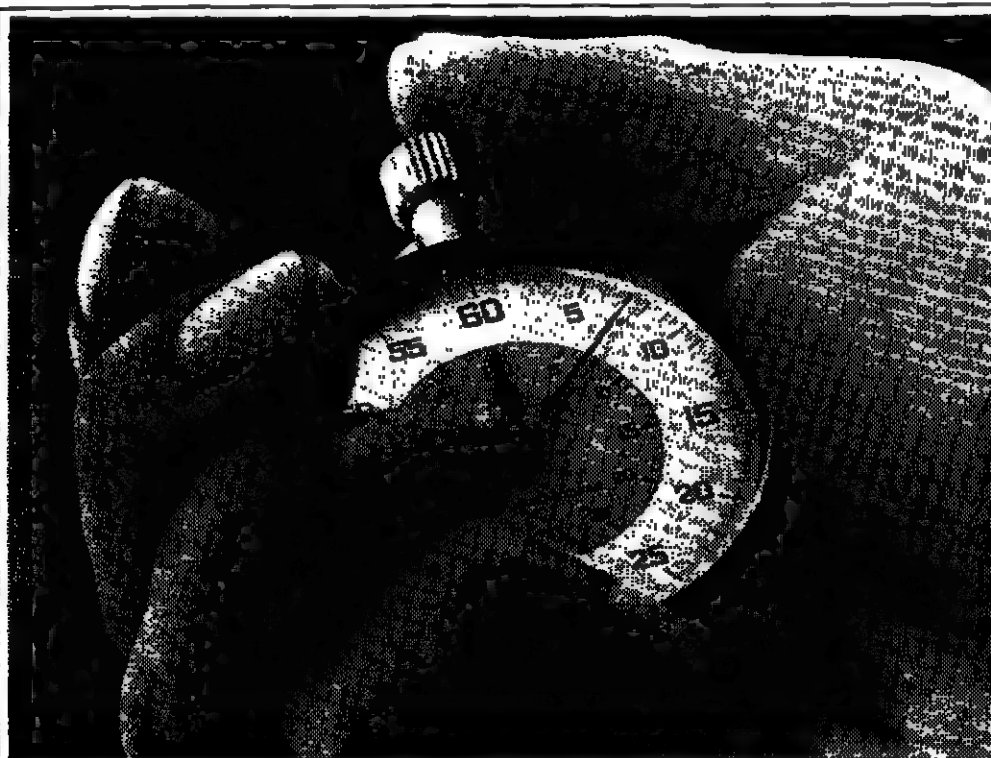
exchanges — although with only minor success so far — in eliciting increased investor interest.

Along with the Ministry of Finance's caution in allowing these slightly more sophisticated markets to develop due to fears of investors losing their funds, its attitude also represents a long-standing opposition to speculation in these markets.

With the large trading lots in the Osaka Futures 50, this will limit the activity of all but the largest private investors from participating in this market, with the high commissions another factor that will militate against any dramatic success.

Given the high commission structure of 2.5 percent for a two-way trade, the securities houses will find the new market more than enticing.

BRIAN ROBINS, a journalist based in Tokyo, writes for The South China Morning Post, Euro-money and The Far Eastern Economic Review. He is the former Tokyo correspondent for the Australian Financial Review.



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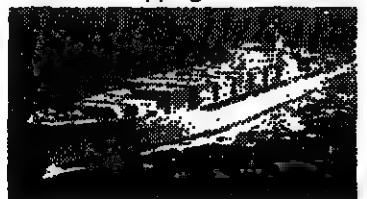
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Tokyo Planners Begin Building The 'Supercity'

By Christine Chapman

TOKYO — A futuristic vision of Tokyo is taking shape out on the polluted waters of the bay, on the sites of abandoned warehouses, displaced factories and old-fashioned harbor-side piers and in deserted country fields. Urban planners, architects and builders have reached the moment of truth. In the Japanese way, much is going to be made out of the unusable. Dream towns will rise out of the land-filled bay and former sewage dumps.

Construction is beginning on a plan to convert overcrowded Tokyo into a 21st-century city that may become the center of international finance. Politicians claim that it is an architectural and economic panacea for the ills of 100 little space, too high unemployment, too low a domestic demand for labor and goods and too much emphasis on the conception of Tokyo as the focus of power and prestige.

By fanning the city out on a 60-kilometer (37-mile) radius, planners hope to turn the megapolis known as Tokyo into one of history's greatest cities.

"Like Paris and London of the 19th century, New York and Los Angeles of the 20th," said Kazuhiko Abe, director of research for the Institute for Urban and Environmental Development, Japan.

"We feel there's a chronological need to change Tokyo again," Mr. Abe said of the redevelopment projects he has been involved with for more than 15 years.

Mr. Abe, an economist, was referring to recent epochs when great changes occurred in Japan: the Edo period, when the country's isolation from the rest of the world was broken; after the 1923 earthquake and again after World War II, when rebuilding the city was essential; and before the 1964 Tokyo Olympics, which gave impetus to building a highway system and dramatic monuments to the new era, such as the Yoyogi Olympic Stadium.

"The world needs Tokyo as an international city," Mr. Abe insisted. "And Tokyo needs a giant leap forward in terms of space."

The vision, however, came up against the basic realities of limited space, uncertain financing and a nagging doubt: Can planners provide the infrastructure — a transportation net-

work, water supply, sewage system — to make a supercity feasible?

The general plan, issued in December and entitled the Fourth Comprehensive National Development Plan for 1986-2000, stressed two seemingly conflicting goals: 5.7 million houses and 40,000 hectares (98,430 acres) of land were needed, and the area of park space per resident was to be doubled.

An advisory council to the National Land Agency shores up the fourth postwar plan with impressive statistics. By 2000, the population of the Tokyo metropolitan area, which includes the city proper and its neighboring prefectures, or states, may number 33 million to 35 million, up from 30.2 million in 1985 (there are now 11.6 million in Tokyo proper).

The number of people working in the megapolis will rise to 16.8 million by 2000, up from 14.7 million in 1985.

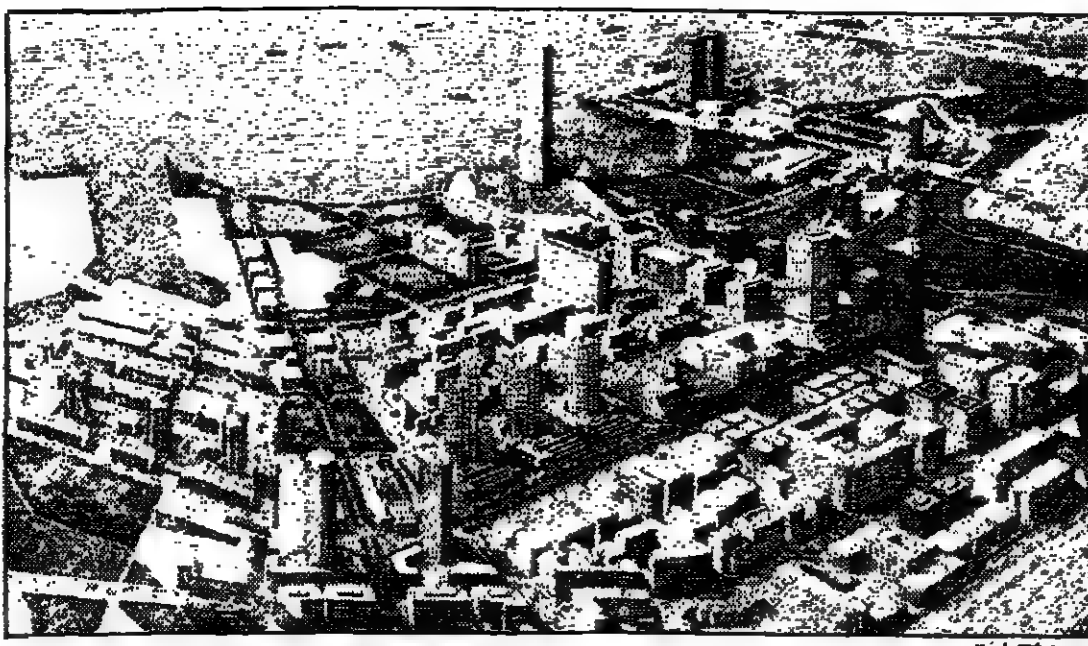
In order to handle the Tokyo explosion, the number of proposed redevelopment projects, on paper or on the table in plastic models, ranges from a low of 40 to a high of 80. For the expansion of the three-city Tokyo-Yokohama-Chiba area, there are 40 or 30 coastal plans that involve Tokyo Bay. When the inland projects are included, the total climbs to more than 70, Mr. Abe said.

"We are going to change the structure of the metropolitan area by enclosing the bay," he explained. A 15-kilometer bridge-tunnel across Tokyo Bay will connect the industrial port city of Kawasaki, south of Tokyo, to the western shore of Chiba.

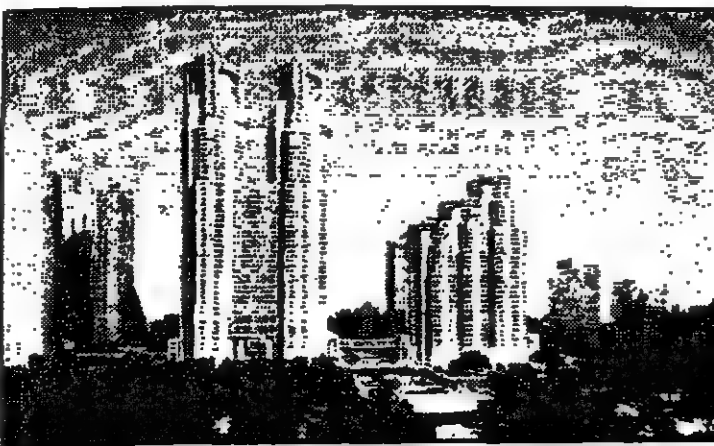
A second major project, one with a fantasy touch, is the creation of a Tokyo seaside development on the site of reclaimed land offshore in Tokyo Bay. It will include River City 21, an all-purpose, self-contained mini-Manhattan. On another site will be deluxe housing for foreigners, dubbed "International Village," with 2,000 units, hotels, clinics and shopping centers.

Tokyo Teleport, a telecommunications complex, will be built on another man-made island. In late February, the business newspaper Nihon Keizai demurred in a headline: "Too Many Tokyo Bay Projects."

A third major project is in Yokohama, the port city 26 kilometers south of Tokyo; it would extend the city into the harbor on reclaimed land. Called Minato Mirai 21, also known



Drawing of a new port city for Yokohama, part of the Tokyo area's expansion.



A model of Kenzo Tange's design for the Tokyo city hall.

as "Port of the Future," it is a combination of urban renewal and landfill that will provide 186 hectares for expansion.

A new airport will be built at Haneda, site of the national airport that a few years ago lost traffic to the new international airport at Narita in Chiba prefecture. About 30 minutes from Tokyo and Yokohama, Haneda, always more convenient than Narita, will claim Asian routes as well as domestic air travel.

The fifth important proposal is to revitalize Chiba on the Boso Peninsula across Tokyo Bay. Famous as a bedroom community for commuters and for Tokyo Disneyland, Chiba has served as an industrial area and an agricultural region that supplies food to the city. Soon, in the fishing village of Urayasu, where Disneyland sits in isolated, encased splendor, apartments will be built for Japanese and foreigners and sold by the Housing

and Urban Development Corp. Selling homes to foreigners will be a first for the government agency.

Architects for buildings in the 21st-century project are chosen through competition. Fumihiko Maki, an international architect, won the contract to design the Mahabari convention center. On paper, the drawing looks, appropriately, like a free-floating station in space.

Mr. Maki's mentor, Kenzo Tange, who built the Yoyogi Olympic Stadium, is designing a new city hall in West Shinjuku, the site of Tokyo's few skyscrapers. The project will comprise the two tallest buildings in Japan, at 240 meters (780 feet), and a shorter cluster of three towers.

Calling the models "Gothic-like," critics have compared the idea to Notre-Dame and Cologne cathedrals. (Mr. Tange is said to have muttered: "It's just an office building.")

Mr. Tange's and Mr. Maki's pro-

jects are scheduled for completion by 1990.

Except for the Tokyo Bay seaside center, construction on many of the 80 projects is under way, said Mr. Abe. Costs will be in the billions of dollars, financed in part by national and local governments. Apart from the budget problems of the national and metropolitan governments, the coordination of the multiple proposals is a headache for the National Land Agency.

"For example, each prefecture or each city wants its own convention center," Mr. Abe said. "It's difficult to say, 'No, there are too many convention centers,' but the National Land Agency is trying to organize the different projects."

Mr. Abe, whose institute works for the National Land Agency, is aware of other potential problems: inefficient transportation or new roads that will make traffic worse than it already is, the possibility of night-time "ghost towns" after workers leave, and the historical prejudice of the Japanese, about where they live and work in Tokyo.

Expanding Tokyo into the prefectures challenges tradition. To the Japanese, the northern and eastern districts of the city conjure up images of the lower-class city-center neighborhoods and areas too close to the countryside. Having left the provinces for the big city, the Japanese prefer to settle in the western or southern districts, which represent upper-class chic and money.

However imperfect the urbanization project, people agree that something must be done.

CHRISTINE CHAPMAN, a journalist based in Tokyo, specializes in cultural affairs.

Tips on Becoming An 'Honored Guest'

TOKYO — When two lost Americans recently asked a department store clerk in guidebook Japanese how to find a boutique somewhere nearby, the answer became an odyssey. After considering the shop's address on a Japanese business card, the clerk led the couple to his supervisor. The supervisor studied the card and walked the strangers to the store's information desk where a young woman searched for a detailed map of the neighborhood. Failing to find one, she left her post to accompany them to a nearby police box where an officer pointed out the shop across a busy intersection.

In a country where foreigners are "honored guests" to be protected from harm or embarrassment, such response is not unusual. Frequently, the most embarrassing moment for business travelers and tourists is how to handle such hospitality.

Language and cultural differences make Japan a destination unlike any other. With a little planning, business travelers and tourists can make more of their stays and stretch their appreciated yen.

The best place to begin is the Japan National Tourist Organization, with overseas offices and with information centers in Japan at the international airport, Kyoto and in central Tokyo at 1-6-6 Yurakucho.

The tourist office can supply a wealth of information, including a comprehensive brochure called "Your Guide to Japan," maps, lists of inexpensive hotels and restaurants, walking tours in Tokyo, cultural events and sightseeing tours.

The office sponsors a tape-recorded telephone service in English and French, alerting tourists to events in Tokyo and Kyoto. In Tokyo, the English number is 503-2911; the French number is 503-2926. Individual queries can be fielded 9 A.M. to 5 P.M. through the English-language Japan Travel-Phone. In Tokyo, dial 502-1461.

The major travel agencies in Tokyo have international sections to help foreigners book hotel rooms and tours or reserve train seats, but the convenient and money-saving Japan rail pass, good for unlimited mileage for one, two or three weeks, must be purchased overseas from an authorized agent before arrival. A seven-day pass costs slightly less than a round trip from Tokyo to Kyoto and Nara. Day passes on the Tokyo subway system are good value at 600 yen (about \$4) and save the time and trouble of dealing with ticket vending machines at each station.

Travelers to Japan can buy almost anything they have forgotten to bring, although the prices will be considerably higher than at home. The American Pharmacy near the Yurakucho tourist information center has English-speaking staff and many foreign medicines and beauty products.

When packing, visitors would do well to include small packets of tissues, often needed here as napkins, toilet paper and towel paper. Sensible shoes are also a must, but in

Japan a sensible shoe is one that can be slipped on and off easily, saving time and frustration in temples, restaurants, doctors' offices and homes where shoes are left at the door.

Basic travel wardrobes work well in Japan, but natural fibers are more comfortable during the muggy months of July, August and September. Winters are cold and generally clear, but bulky clothing such as down coats

A question can lead to an odyssey.

gets in the way on subways and in restaurants. When it comes to accommodations and eating, timid or busy travelers would do well to book into one of Tokyo's many Western-style hotels that cushion against cultural rub. First-class hotels compete particularly for the corporate traveler, with executive lounges and cocktail parties, reference libraries, secretarial and translation services, free meeting rooms and gift-buying advice. The top-of-the-line Hotel Okura even makes an IBM Personal Computer available to business people; the Imperial Hotel rents jogging gear.

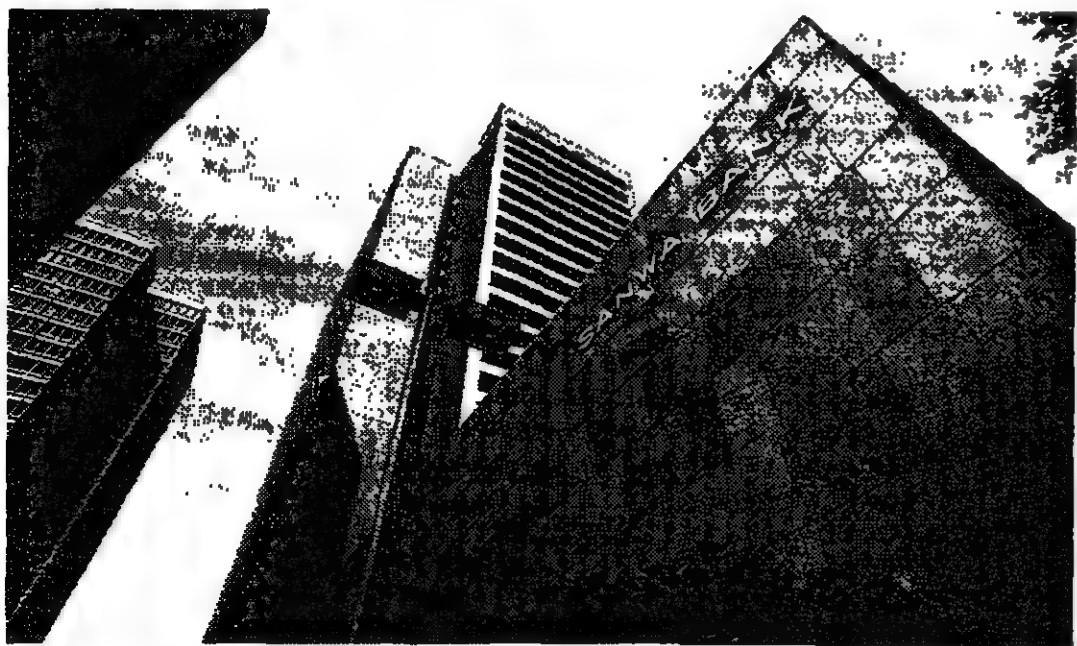
Seeking out less expensive lodgings in less convenient locations is in some ways easier in Japan than in other countries. Neighborhoods and the subways used to reach them are safe; accommodations, though basic, are clean and efficient. The tourist office can supply information on efficiency (business) hotels, where an average single is 6,000 yen; ryokans (Japanese-style inns), at 8,000 to 10,000 yen a person; and youth hostels. Of you can follow Jack Nicklaus into the Imperial Hotel's newly redecorated Imperial Suite, which rents for 600,000 yen a night.

The only dish not easy to find in Tokyo is couscous. The New Otani Hotel, one of the largest in the world, even has its own Tou D'Argent with numerous dips, while Mamiya Beach's famous Joe's Stone Crab supplies Tokyo with crab claws. But the best bet in Tokyo these days is a *teishoku* (pronounced tay-show-ko), the luncheon special available at many restaurants. From 600 to 1,200 yen will buy a main dish (at a fraction of what it would cost at night), soup, pickles, rice and perhaps other dishes.

There is no tipping in Japanese restaurants, but if the individual tab is over 2,500 yen, a 10 percent tax is added.

NANCY REE JACOBSON, a journalist based in Paris, has just returned from a year in Japan.

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Will Japanese Buy Wall Street?

Continued from page 7

al economics at Harvard and former undersecretary of state for economic affairs.

And, just as in other business, the Japanese have started out modestly on Wall Street and then, by attention to detail, quality performance and sheer hard work, they have gained market share. For instance, Japanese commercial banks first entered the letter-of-credit market in 1983 and today are the biggest issuers of such guarantees of municipal debt, winning the business with bids often 50 percent below American banks — a reflection of more lenient reserve requirements on Tokyo banks. And some municipalities preferred doing business with the Japanese.

"There's a sex appeal to doing business with the Japanese," said Kenneth Gibbs, a vice president in the First Boston Corp.'s public finance department.

Similar inroads have been made in corporate finance. Nomura took Wall Street by surprise when it was selected last year as the sole underwriter of a \$250 million five-year domestic note offering for the General Electric Corp. with a bid that was 11 basis points, or hundredths of a percentage point, lower than the competition.

"They won the deal because, like any house, they were the low bidder," said Geoffrey R. Norman, treasurer at General Electric Credit.

Still, some say the Japanese will have more success as traders than in corporate finance, which is more governed by historic client-banker relationships. "Corporate finance will be tough," said Samuel L. Hayes, investment banking professor at Harvard. "Our investment and commercial banks have developed such sophistication that the Japanese have a long way to go to become head-to-head competitors."

While the Japanese still have a

Making New Inroads

Data as of Dec. 31, 1986, compared with figures at end of 1985 (in parentheses), for U.S. subsidiaries of Japan's largest brokers (capital in millions). Second table shows Japanese investors in U.S. investment banks.

| BROKERS | Capital | Employees | Offices |
|----------------------------------|------------------|-----------|---------|
| Nomura Securities International* | \$131.0 (\$90.3) | 389 (220) | 5 (9) |
| Daiwa Securities America* | \$116.6 (\$66.5) | 342 (141) | 3 (3) |
| Nikko Securities International | \$108.3 (\$83.2) | 250 (120) | 4 (4) |
| Yamachi International | \$60.7 (\$23.9) | 196 (97) | 3 (3) |

| INVESTORS | U.S. Investment | Amount |
|--------------------------|---|---------------|
| Industrial Bank of Japan | Primary dealer Aubrey G. Landon, bought through J. Henry Schroder Bank, an Industrial Bank unit | \$234 million |
| Sankyo Bank | 12.5% stake in Goldman Sachs | \$500 million |
| Nippon Life Insurance | 19% stake in Shearson Lehman Brothers | \$538 million |

*Nations a primary dealer in U.S. government securities in December 1986. *Latest data as of Sept. 30, 1986.

Sources: Securities Industry Association; company reports.

The New York Times

long way to go on Wall Street, many fear that they are so wealthy that ultimately they will dominate. Giant commercial banks like Sumitomo could buy Salomon Brothers, Merrill Lynch and Goldman as well. And some point a doomsday scenario of the Japanese gaining control of the U.S. financial markets and then causing a collapse by suddenly withdrawing their holdings.

To some, these concerns are unfounded. "It's just not logical or rational to think that the Japanese would own Wall Street," said John G. Heimann, vice chairman of Merrill Lynch Capital Markets and controller of the currency from 1977 to 1981. But, for the Japanese, this is a sensitive topic.

"Japanese are very sensitive to the control issue," Mr. Axilrod said, in an interview from Nikko's Tokyo office. "They don't want their actions being interpreted as

leading to control of the destiny of the United States."

Of more immediate concern, however, is the issue of fairness — the ease with which the Japanese can set up shop in New York compared with the barriers in Tokyo. "American markets are remarkably open; Japanese markets are remarkably closed," said Representative Charles E. Schumer, the Brooklyn Democrat who has sponsored legislation to roll back primary dealer status to Japanese firms until the Tokyo barriers are lowered. Still, given the desire on Wall Street to do business in Tokyo, New York bankers seem more interested in lining up Japanese partners than in making waves.

LESLIE WAYNE is a business writer for The New York Times.

By Gregory Clark

TOKYO — Under strong U.S. pressure the Japanese government has finally announced a \$42 billion spending package to revive the economy. Most of the money will go to public works and housing finance. The aim is to help tide the economy over the difficulties caused by the so-called *endaka* *deflation* — deflation resulting from yen appreciation.

To date, the government has been reluctant to increase public spending because of concern over the already high level of public debt. The size of the package, and its sudden announcement, show that it at last realizes the problems facing the economy following the 60 percent yen appreciation in the past two years.

Even so, the package seems to be yet another example of Japan's propensity for too little, too late. Almost daily, the figures released in Japan testify to the damage caused by yen appreciation. Profits in the manufacturing industry fell by an average of 22.8 percent in the 1986 financial year ending March 31. The full previous year was 19.8 percent.

One out of 10 of Japan's listed companies had an operating loss in the 1986 financial year. At the top of the list were 10 of Japan's largest shipbuilding, steel and shipping companies. Most had losses well over the \$100 million mark. Half of them had losses the year before.

Even well-known electronics makers such as Sony, Canon, Victor and Sanyo are beginning to register losses, thanks to vicious cuts in export profits.

Investment in most of the manufacturing sector has been slashed. In the steel industry it has been cut by more than 30 percent, and large-scale dismissals of employees are under way.

Fortunately, the economy has been sustained somewhat by the shift in emphasis to nonmanufacturing sectors. The more expensive yen means stronger purchasing power for some, and that is starting to lap over into the housing and service sectors. The new technology industries based on computers and communications continue to expand.

Electricity and gas companies have made enormous profits from the fall in imported fuel prices, most of which have not been passed on to consumers.

But the main factor working to hold the economy up is the quite unreal boom in the land and stock

markets. Land prices in Tokyo have risen by an average of 200 percent over the past two years and the boom is now spreading to other major cities. The excuse for the boom is Tokyo's growing role as an international commercial center and the low level of interest rates, now below 4 percent for financial instruments. But pure, unadulterated speculation would seem to be a much more important factor.

On the stock markets the speculation is even less disguised. The Tokyo exchange is up by close to 70 percent over a year ago, even as company profits have been falling. Price-earnings ratios are now approaching the 70 level, a figure quite out of line with economic realities.

Worse is the way the two booms reinforce each other. Rising land values increase company asset values, which in turn provide the excuse to increase share prices. Banks willingly accept the inflated values of land and shares as collateral to lend money for purchases of more land and shares. In Japan, it is called "financial technology," and it is rapidly replacing the real world of technology as a major source of enterprise profits. Many manufacturing firms now rely on it to prevent profit levels from going into the red.

For the government, too, the speculative boom has been a savior. Normally, the slump in manufacturing would put severe pressure on revenues and hence spending. But this year at least, the fall in manufacturing has been more than compensated for by the quite abnormal profits made by banks, securities companies and real estate dealers. Nomura Securities, Japan's largest securities company, registered profits of close to \$3 billion, up more than 60 percent from the year before. The government also gets a percentage of the stock market and land sales turnover.

Government spokesmen still hold to their optimistic 3.5 percent real growth estimate for this fiscal year, although most private estimates remain lower.

This economic activity has allowed the government to put together its \$42 billion spending package. In particular, it is looking to the go-go stock market to provide it with further large revenues from the sale of its shares in NTT, the former government telecommunications monopoly, later this year.

But while the government has been able to increase spending, optimism for the future seems misplaced. The land and stock market

booms will inevitably fade, leaving, as in the past, a string of bankruptcies and a recessionary mood extending at least three to four years. If this coincides, as is likely, with several major bank-rapies among medium to large export manufacturers, the slump could extend much longer.

Paradoxically, what some hope for today in Japan is another oil crisis centered on the Gulf. As in 1979, this would push up the price of Japan's oil imports, weaken the yen and allow the export industries to recover.

Meanwhile, the much safer so-

lution to Japan's problems, a sensible land tax system, continues to be ignored. The currently absurd levels of land prices do more than distort the economy; they also prevent effective utilization of the government's new spending package. Finance for new housing is of little use when few can afford the land to build a house. More than 90 percent of the money allocated to build a badly needed 2 kilometer (1.23 mile) stretch of highway in the center of Tokyo will have to go on land acquisition costs.

If Japan could pluck up the courage to raise land taxes to the level of other advanced societies, it

would with one stroke solve many problems. It would lower land prices, increase government revenues, encourage new private spending and allow infrastructure spending to become economic (to the extent such spending increases land values and thus land tax revenues). As to why Japan still refuses to revamp its antiquated and quite illogical land tax system, this, as ever, remains a mystery.

GREGORY CLARK is professor of international business at Sophia University in Tokyo.



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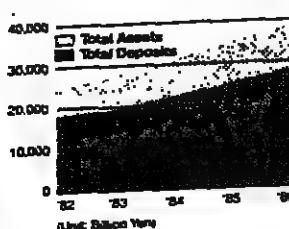
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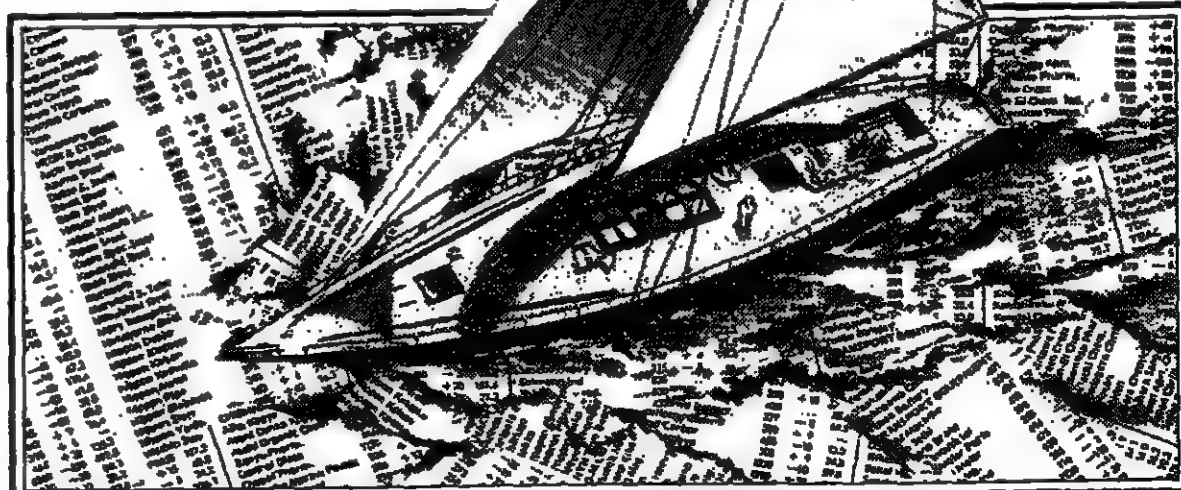
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| Compagnie Financière de Crédi Industriel et Commercial | DM 255 | 1993 | 1/4 | 100.05 | 99.90 | Over 6-month Libor. Noncallable. Fees 0.15%. |
| NZI Capital | ¥10,000 | 1992 | 0.60 | 100 | — | Below the Japanese long-term prime rate, semiannually. Noncallable. Fees 0.55%. |
| FIXED-COUPON | | | | | | |
| Algon | \$100 | 1990 | 8 1/4 | 101 | 99.40 | Noncallable. Fees 1 1/4%. |
| Prudential Funding | \$125 | 1994 | 8 1/4 | 101 1/4 | 99.75 | Noncallable. Fees 1 1/4%. |
| Toronto Dominion | \$46.075 | 1989 | 9.80 | 98.84 | — | Coupon will be 9.82% in 1987, 6% in 1988 and 6.314% in 1989. Fees 1 1/4%. |
| Malaysia | DM 150 | 1994 | 6 1/4 | 100 | 97.40 | Noncallable. Fees 2 1/4%. |
| World Bank | ECU 100 | 1994 | 7 1/4 | 101 1/4 | 99.88 | Noncallable. Fees 1 1/4%. |
| European Community | FF 500 | 1997 | 8 1/4 | 94 1/4 | 92.50 | Noncallable. Fees 2%. |
| Genossenschaftliche Zentralbank | CS 75 | 1993 | 9 1/4 | 101 1/4 | 99.63 | Noncallable. Fees 1 1/4%. |
| IBM Canada | CS 100 | 1992 | 9 1/4 | 101 1/4 | 99.25 | Noncallable. Fees 1 1/4%. |
| Société Nationale des Chemins de Fer Français | CS 90 | 1991 | 9 1/4 | 101 1/4 | 99.50 | Noncallable. Fees 1 1/4%. |
| GMAC Australia Finance | Aus\$ 50 | 1990 | 14 | 101 1/4 | 99.88 | Noncallable. Fees 1 1/4%. |
| National Australia Bank | Aus\$ 50 | 1992 | 14 | 101 1/4 | 99.75 | Noncallable. Fees 2%. |
| World Bank | Aus\$ 100 | 1992 | 13 1/4 | 101 1/4 | 100.00 | Noncallable. Fees 1 1/4%. |
| Belgium | ¥50,000 | 1991 | 4 1/4 | 101 1/4 | 99.38 | Noncallable. Fees 1 1/4%. |
| Bergen Bank | ¥5,000 | 1992 | — | 100 1/4 | — | There will be no coupon in first year, then interest will be 3% in 2nd year, 5% in 3rd year and 7% thereafter. Noncallable. Fees 1 1/4%. |
| Korean Electric Power Company | ¥7,500 | 1993 | 4 1/4 | 101 1/4 | 99.50 | Callable at 101 1/4 in 1990. Fees 1 1/4%. |
| Lincoln Savings & Loan Association | ¥7,000 | 1992 | 4 1/4 | 101 1/4 | — | Noncallable. Fees 1 1/4%. |
| EQUITY-LINKED | | | | | | |
| Cosmo Securities | \$50 | 1992 | open | 100 | 101.25 | Coupon indicated at 100%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 20% premium. Fees 2 1/4%. |
| Glory | \$60 | 1992 | 1 1/4 | 100 | 95.50 | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at \$149.50 per share and at \$149.50 per dollar. Fees 2 1/4%. |
| Kansai Point | \$60 | 1992 | 1 1/4 | 100 | 95.00 | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at \$149.50 per share and at \$149.50 per dollar. Fees 2 1/4%. |
| Matsuya | \$50 | 1992 | 1 1/4 | 100 | — | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at \$149.50 per share and at \$149.50 per dollar. Fees 2 1/4%. |
| Nikken Chemicals | \$50 | 1992 | 1 1/4 | 100 | 93.50 | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at \$149.50 per share and at \$149.50 per dollar. Fees 2 1/4%. |
| Nippon Oil & Fats | \$70 | 1992 | open | 100 | — | Coupon indicated at 100%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 20% premium. Fees 2 1/4%. |
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| Pasco | \$85 | 1992 | open | 100 | 94.50 | Coupon indicated at 100%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 20% premium. Fees 2 1/4%. |
| Tokyo | \$150 | 1992 | 1 1/4 | 100 | 96.00 | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at \$149.50 per share and at \$149.50 per dollar. Fees 2 1/4%. |
| Toyama Chemical | \$50 | 1992 | open | 100 | 99.25 | Coupon indicated at 100%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 20% premium. Fees 2 1/4%. |
| Yamamura Glass | \$40 | 1992 | open | 100 | 97.00 | Coupon indicated at 100%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 20% premium. Fees 2 1/4%. |
| Bel Group | £75 | 1997 | 5 | 100 | 97.75 | Redeemable at £124 in 1992 to yield 8 1/4%. Convertible at Aus\$10.28 per share and at Aus\$25.43 per pound. Fees 2 1/4%. |
| Wacoal | ECU 80 | 1992 | 1 1/4 | 100 | 97.50 | Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at \$149.50 per share and at \$149.50 per dollar. Fees 2 1/4%. |
| WARRANTS | | | | | | |
| Biopartners | 0.20 | 1992 | — | 53 | — | Warrants entitling holders to buy \$500 at a fixed exchange rate of 1.85 marks per dollar. |

EUROBONDS: As Deficit Festers, Confidence Flags

(Continued from first finance page)

quote when terms are set Wednesday. The paper ended the week trading at 101 1/4.

One of the hardest hit on last week's issues was Tokyo's. The company is involved in real estate development, retailing and recreation and had traded as high as 105 to 106 before the indicated coupon of 1 1/4 percent was cut to 1 percent.

This is a record low, reflecting, in the view of many bankers, not the greed of the company but the muscle flexing of Yamachi Securities, the lead manager. By the end of the week, the paper was trading at 96.

Insiders report that the warrants are not being sold. Including the strike price and below-market coupons on the bonds, the effective

premium on this issues works out to about 30 percent. But with price-earnings ratios of Japanese stocks at record highs and fears increasingly voiced that a classic speculative bubble is building in Tokyo, the latest warrants are largely being left with underwriters.

Many bankers expressed concern that the upcoming \$800 million issue for Toyota may break the market for equity warrant bonds. One Japanese source reported that the lead manager, Nomura Securities, intends to increase the amount to \$1 billion.

Prices in the straight yen bond market also declined, in part because of the fear of credit tightening and also because the monthly domestic settlements system has

now been revised to a five-day basis. Up to now, speculators could buy and sell huge quantities of paper, setting off the difference on the payment date: the 25th of each month.

The five-day settlements date is driving large numbers of speculators out of the market, adding to the weakness. As a result, the Euroyen issues for Belgium, Korean Electric Power and Lincoln Savings all traded outside the fees paid to underwriters.

This was true of virtually all the straight, fixed-rate debt issued last week. Both Canadian and Australian dollar bonds, which continue to attract retail demand in Europe, traded down following declines in the domestic bond markets.

Amro Bank Guilder Facility Is a First

By Carl Gewirtz

International Herald Tribune

The first multi-option facility dominated in guilders was launched on the international credit market last week by Amsterdam-Rotterdam Bank NV for a company in the Thyssen-Bornemisza Group.

Greenland NV, a holding company of agricultural equipment in-

holding company, is seeking \$350 million. This seven-year credit will carry a commitment fee of 1/4 percent. Charges to draw on the loan, arranged by Citibank, start at 20 basis points over Libor for the first three years and in two-year intervals rise to 25 and then 30 basis points over Libor. Fees paid to banks underwriting \$25 million total 7 1/4 basis points.

Alcan Australia named Swiss Bank Corp. to arrange a \$100 million note issuance facility. This will run for eight years, but underwriters are offered the option to withdraw after five.

Participants will be paid an underwriting fee of 18 1/2 basis points and will be committed to provide credit at a maximum margin of 20 basis points over Libor. Front-end fees amount to 10 basis points.

Norske Skogindustrier AS, a pulp, paper and timber company, is seeking a \$100 million, five-year facility against which it can issue Eurobonds. Banks are being asked to underwrite a \$70 million backup facility that will carry an annual facility fee of 10 basis points. Drawings on the credit will be 12 1/2 basis points over Libor and the charge will be 20 basis points if more than half is drawn.

Compagnie Industrielle Riunite (CIR), Carlo de Benedetti's holding company, appointed Citicorp to arrange a \$200 million syndicated loan. The credit will run for seven years, but underwriters have the option of withdrawing after the fifth or sixth year.

CIR will have one year in which to draw down the loan and the commitment fee will be 6 1/4 basis points. Interest on drawings is set at 15 basis points over Libor.

In Asia, Citicorp is arranging the refinancing of a 49 billion yen credit for Hopewell Power China Ltd. This was financing for the Sheng coal-fired power station in China.

The portion being refinanced was originally a guarantee facility from Japan, whose terms were fixed at a margin over the long-term prime rate in Japan. The new seven-year credit will bear interest at 1 1/4 points over Libor until completion of the project, expected in 1988, and then 1 1/2 percent. Euroyen Libor is currently around 4 percent.

The proceeds are being swapped into a new fixed-rate loan with Hopewell paying well below the current long-term prime rate of 4.9 percent.

The Bank of Greece will also be tapping the yen market. It is negotiating for terms on a 10-year loan of 40 billion yen, equally divided between fixed and floating rates.

| U.S. Consumer Rates | | June 19 |
|-----------------------------|-----------|-----------|
| Year Forward Bond | Bank Rate | 7.2 1/2 % |
| Money Market Funds | Bank Rate | 7.2 1/2 % |
| Domestic 1-Year Average | Bank Rate | 6 1/4 % |
| Bank Money Market Accounts | Bank Rate | 5.5 % |
| Bank Rate | Bank Rate | 5.5 % |
| Home Mortgage, FHLB average | Bank Rate | 10 1/2 % |
| Source: New York Times | | |

Bank Conference to Focus on Debt

By Carl Gewirtz

International Herald Tribune

HAMBURG — The world's leading commercial banks open their annual conference here on Monday, focusing on the debt crisis, international monetary reform and the increasing risks incurred in payments between banks as the volume of interbank business explodes.

"It's an opportunity for heads of banks to get together and discuss issues," said Willard Butcher, chairman of Chase Manhattan Bank and president of this year's International Monetary Conference.

"We are interconnected," he said in an interview on Sunday. "We have got to take account of how our colleagues' look at problems and attempt to solve them."

The object of the three-day meeting, said Walter Seipp, chairman of Commerzbank, "is to look at problems and discuss possible solutions."

The meeting, at which a number of central bankers will participate, does not set policy.

The conference is arranged by the American Bankers Association. The restricted membership is even-ly divided between U.S. and non-U.S. banks. Current membership in the IMC is 109 banks.

In Mr. Butcher's view, there are three overriding issues challenging commercial banks today:

• The debt crisis. "We are a system," he said, "which means that the health and progress of each is dependent on the health and progress of the system as a whole."

• The increasing risks incurred in payments between banks. More than \$300 billion a day currently passes through the New York clearing system, giving bankers nightmares of what would happen if even one bank failed to honor a transaction.

• International monetary reform. "We live within a system, the international monetary system," Mr. Butcher said, "but the damn thing doesn't work, not when it permits a massive misalignment of currency values for great periods of time."

"In the long run, you can't sit by

and watch the economic damage wrought by currency rates that bear no relation to economic capabilities," he said. "We need a better system than the one we've got," he said.

On exchange rates, Mr. Butcher said that "clearly, the dollar is in better relation than it was, at least against the Deutsche mark and yen."

"But I would rather see further change in the dollar rather than a slide toward protectionism," he said.

He said that the world needed a period of exchange-rate stability, but added, "I suspect we may need the dollar to go lower over time."

The central bankers here, Paul A. Volcker, chairman of the Federal Reserve Board; Karl Otto Pöhl, president of the Bundesbank; Robert L. Hight, governor of the Bank of England; and Jacques de Larosière, governor of the Bank of France, will no doubt reiterate the message of their recent communiqués that exchange-rate stability is a goal of all their governments.

In Brazil, Car Sales Skid to a Halt

Industry Faces Crisis as Dealers Protest Rising Prices

Reuters

SAO PAULO — Brazil's auto industry has not made a single domestic sale for several days, and several assembly lines will stop shortly, according to industry spokesmen.

The auto industry, which is dominated by the subsidiaries of Volkswagen AG, Fiat SpA, General Motors Corp. and Ford Motor Co., has seen demand slumping for months as the country heads into recession.

But the problems intensified last Tuesday, when dealers decided to stop buying cars and trucks to protest high government taxes on vehicles. The previous week, the government had authorized a 33 percent increase in car prices to cover the industry's rising costs.

A spokesman for the Brazilian Association of Automotive Vehicle Distributors, Marcelo Stefani, said that dealers felt their livelihood was at stake.

Cars aren't selling because they cost too much," he said. "It is a question of our survival. The price of cars in Brazil has reached an insupportable level."

A GM Opala Diplomat, he said, costs \$30,000 in Brazil, while an equivalent car in the United States would cost about \$10,000.

A spokesman for the National Association of Automotive Vehi-

If a boycott by dealers continues, manufacturers say, layoffs will follow.

de Manufacturers, Fred Carvalho, said that if the trade's boycott continued for another week, there would first be collective holidays then layoffs.

A spokesman for Ford Brazil said it would tell about half of its 21,000 work force to take holidays from June 29 to July 13.

Fiat said Thursday that it would give 2,000 workers a month's vacation, from July 6, halting production for the domestic market.

Mr. Carvalho said the industry was producing 3,500 vehicles a day, below its 1986 average of 4,700 and capacity of 5,100.

During last year's price freeze, known as the Cruzado Plan, demand for cars outstripped supply.

Today, with inflation running at an annual rate of around 1,000 percent and a new austerity plan being put into place, demand has all but disappeared.

Domestic car sales during the first five months of this year slipped to their lowest level for a decade, at 241,632, compared with 382,182 a year earlier.

However, exports are booming. Sales abroad in May totaled \$242 million, a record.

The auto industry is critical of the way President José Sarney's government has handled the economy.

Wolfgang Sauer, president of Volkswagen do Brasil, said the government had created a "crisis of confidence."

Last month Volkswagen said it would postpone indefinitely investments of \$150 million planned for this year.

APARTHEID: U.S. Activists Focus on Foreign Firms

(Continued from first finance page)

believed by some experts to have the largest foreign investment there.

Others with major holdings include the West German automakers Volkswagen AG, Daimler-Benz AG and Bayerische Motoren Werke; British Petroleum Co.; Switzerland's Nestlé SA; and Unilever Group, the Dutch-British food and drug conglomerate.

Activists in the United States have been able to put pressure on U.S. companies by such means as proposing stockholder resolutions, trying institutional investors to sell their stock in companies with South African ties, and lobbying for the enactment of laws banning state- and municipal-government investments in or contracts with companies with South African holdings.

However, pressuring non-U.S. companies is more difficult. Only 36 companies other than those from the United States have pulled out of South Africa since 1984, according to the research center.

Operating under different corporate rules, foreign companies are less sensitive to outside pressures than U.S. companies. "We've had the shareholder pressure here that I don't think they've had overseas," said Alison Cooper, an analyst for the research center.

Royal Dutch Petroleum, for instance, refused requests to introduce shareholder resolutions at its annual meeting this year requesting that the company pull out of South Africa.

Activists are now trying another tactic, using a Dutch law requiring that a special shareholders' meeting be called to discuss an issue if 10 percent of the shareholders request it.

Mr. Sullivan is also calling for congressional action to put trade sanctions on the nations in which these companies are based, so that those governments will bring pressure in turn on the companies.

The activists also say they believe that the influence of large U.S. companies that have pulled out of South Africa will pressure foreign companies, as well as the remaining U.S. firms.

Randall Robinson, head of TransAfrica, a Washington-based lobbying group, said the pullout by Citicorp, the last remaining major U.S. banking company in South Africa, was "not just another corporate leaving."

"It's the largest American bank

and one of the largest financial corporations in the world," he said, "with \$700 million in outstanding loans in South Africa."

He suggested that Citicorp's departure would put pressure on other companies by eliminating a significant source of funding for South African buyouts of U.S. interests.

The announced departures of Citicorp, Ford and JTI came less than two weeks after Mr. Sullivan took his hardest line yet on involvement in South Africa.

Previously, Mr. Sullivan had promulgated a group of guidelines, known as the Sullivan Principles, that called for U.S. companies operating in South Africa to maximize opportunities for blacks and to oppose apartheid in other ways. But earlier this month, Mr. Sullivan said he had concluded that that doctrine was not working, and called for all U.S. companies to leave South Africa.

The three companies said their decisions had nothing to do with Mr. Sullivan's change of position; they appeared to have made decisions based on the deteriorating South African economy.

But activists say other companies are reconsidering their South African stands in light of Mr. Sullivan's statement.

"I think you'll see a quickening

of the pace of corporate departures," Mr. Robinson said.

And Mr. Sullivan said, "A substantial number of companies will have decided from South Africa within nine months and there will be tremendous force on others that remain — unless the South African government begins to make substantial changes."

NOTICE OF MEETING
To the Holders of
CSWI International Finance N.V.
25th Anniversary Redeemable Convertible
Debentures Due 1990 (the "Debentures")

The undersigned, Bankers Trust Company, is the Trustee under the Indenture dated as of May 15, 1981 (the "Indenture") pursuant to which CSWI International Finance N.V. did not make the annual payment of interest on the Debentures due on May 15, 1987 and (ii) a default exists under the Indenture in that Bankers Trust Group Inc. (hereinafter referred to as "Bankers Trust") has failed to make the payment of interest on the Debentures as required by the Indenture.

To facilitate further communications regarding this matter, holders are urged to use their names available to the Trustee by writing to the Trustee at the address listed below and stating that such person is a holder of the above-referenced Debentures.

BANKERS TRUST COMPANY
A Member of the Bankers Trust Group
200 Broadway, New York, New York 10038
Telephone No. (212) 260-6800
Telex No. 260680

Dated: June 22, 1987

EXTRACTS OF LETTER TO SHAREHOLDERS,
FROM MR. PATRICK POLLET, PRESIDENT.

I am pleased to be able to confirm that your company has achieved its objectives for the 1986-1987 fiscal year.

We have pursued our policy of financial reconstruction. For this reason we were able to accept the offer of purchase made to us by the Pollet Group.

This year was also marked by the closure relationship with the company, Au Pinceps S.A.

Consolidated sales turnover for 1986/1987 amounted to F.F. 11,297 million, including taxes, compared with F.F. 10,274 million, being an increase of 10% for comparable data.

Pre-tax trading results rose strongly to F.F. 320.1 million, against F.F. 200 million for the previous year.

Net consolidated profits amounted to F.F. 220.6 million, and include appreciation of F.F. 84.4 million in transfer of Péninsule shares. Excluding this appreciation, the total comes to F.F. 136.2 million, against F.F. 37.9 million last year, also for comparable data.

"La Redoute S.A.", showed a pre-tax trading result of F.F. 78.7 million (+2.4%).

After exceptional items such as appreciation on the transfer of shares mentioned above and debts written off, net profit reached F.F. 105.8 million, against F.F. 30 million for the previous fiscal period.

"Redoute Catalogue" business resulted in pre-tax trading results of F.F. 8,977 million (+10.2%), pre-tax profits of F.F. 298 million (+20.4%) and a net profit of F.F. 136 million (+25.2%).

Vestros S.I.A.S., which runs the catalog sales operation in Italy, as well as specialized stores in Italy, Spain and Germany, achieved consolidated sales of 1,462 billion and a net profit of 3 billion lire, compared with 111 million for the previous year.

The range of financial services provided by the company Fininvest, Redoute-Accumuler and Compagnie Le Chêne over a very satisfactory growth in business during 1986. Total financing provided and premiums collected amounted to F.F. 3 billion.

At Milfiume Ronchini, the trading period was marked by development from representative distribution and continuation of the profitability of mail order sales amounted to F.F. 230 million (+4.5%), with a net profit of F.F. 2.2 million, following substantial provisions for depreciation of stocks and similar risks.

In conclusion, I should inform you that the general assembly, which will be held July 22nd, will be asked to approve a dividend of F.F. 52, compared with F.F. 44, this year resulting in a global distribution of F.F. 63.18 million, against F.F. 51.9 million in 1985/1986.

Finally, with regard to the current trading period, and taking account of a forecasted slowing down in domestic consumption, as well as a very competitive trading environment, we hope to achieve an increase of 8% in sales, accompanied by further increased profits.

Jacobs Says He Owns Big Block Of Gillette Stock

New York Times Service

NEW YORK — Irwin L. Jacobs, the Minneapolis investor, has disclosed that he owns "a substantial" block of stock in Gillette Co.

The disclosure Friday is expected to touch off similar announcements by other investors and may even trigger a bidding war for the Boston-based maker of razor blades.

It came a day after Ronald O. Perleman, chairman of the cosmetics company Revlon Inc., said he was prepared to pay "at least" \$40.50 a share, or \$4.8 billion. Gillette rejected the offer before the day ended but did not assent to the price as unfair.

Mr. Jacobs refused to be specific about his holdings, but said that the amount was less than 5 percent. Traders estimated that he now holds at least 4 percent and would buy more.

OPEC: Dollar Issue

(Continued from first finance page)

which includes the key OPEC members, Kuwait, Saudi Arabia, the United Arab Emirates and Qatar, said last month that it wants to continue with the \$18 oil price and the output limits that have been in force this year.

OPEC reversed the slide in oil prices caused by its huge overproduction when it set an effective overall limit of 1

BOESKY: *From Bravado to Ostracism: America's Best-Known White-Collar Criminal Dismantles His Stock Empire*
(Continued from first finance page)

After the stock market opened each day, Mr. Bocksky would stand in his office, watching his stock orders and researching on television news. Each of the employees had his own screen on which he could see Mr. Bocksky, but only if Mr. Bocksky wanted it that way.

At the first morning meetings to plan the day's winning strategy, Mr. Bocksky continued to demand loyalty and hard work from his staff, even as the number of his employees began to dwindle from a peak of about 100.

Still intense and driven, Mr. Bocksky sometimes had brief fits of rage. One person who attended a meeting in early December recalls Mr. Bocksky demanding that a person who had failed to complete an assigned task, "How does it feel to be the only person in this room who has done anything wrong?" The person said there was no apparent reason Mr. Bocksky's voice.

In quiet ways, some of Mr. Bocksky's employees began to fight

back. Many were torn between feelings of betrayal and loyalty, bitterness and compassion. One executive regularly arrived at meetings late, and with his tie undone, a practice that would never have been tolerated in the days before Mr. Boesky's tenure.

The repeated tardiness appeared to rattle Mr. Boesky, but he had no recourse. He no longer controlled his employees' lives.

Slowly, in sometimes small ways, the magnitude of his settlement with the government was brought home to Mr. Boesky.

Over the end of 1986, the SEC secretly informed him that he would no longer be able to buy small blocks of stock. It made the decision after members of Congress attacked the commission for allowing Mr. Boesky to sell millions of dollars of stock prior to the announcement of the charges against him.

There were personal setbacks as well. The Jewish Theological Seminary in Manhattan had been one of Mr. Boesky's favorite charities; in December, JTS expelled "The

Ivan F. and Seena Boskey Family Library" inscription from the facade of the school's library.

Into the winter, Mr. Boskey remained mentally alert, people around him said, but his physical appearance began to deteriorate. Always lean, he became thinner to the point of frailness. His hair grew longer, and the shirts he wore to work sometimes were frayed.

There was no one to turn to on him from many sides. Press reports that he had secretly typed conversations with his Wall Street colleagues contributed to a public perception that Mr. Boskey had ratted on his friends.

Several top executives began to leave Mr. Boskey's firm. Some of them were unable to bear the taint of having worked for him, and found it difficult to find new jobs.

As spring approached, Mr. Boskey assisted lawyers in complex negotiations that led to the release of \$640 million in March to bondholders. The release of the money event signaled the end of his role in supervising the stock sell-off.

By March, the portfolio had

Check Fraud

New York

NEW YORK — Shearson L. M. Sterling & Wells recovered about \$19 million from a president who has pleaded guilty that allowed him to divert corporate accounts and investments.

Shearson declined to specify the restitution or how much of the money.

Mr. Stahl, 45, was arrested April 19 at \$19 million from Shearson, Connecticut, and the Bahamas, an in which he had invested.

He pleaded guilty Thursday in charges relating to four transaction statutes. He faces a maximum 10 million in fines. His sentencing was time to try to arrange tax payments.

Herve Gourgaie, the assistant case, said that Mr. Stahl was the

been reduced from about \$1.2 billion to about \$80 million. On May 20, the SEC formally barred Mr. Boesky from the securities business for life.

Mr. Boesky finally was without a

at Shearson

Times Service

Human Brothers has said it is trying to
Mark A. Stahl, a former senior vice
to checking-account manipulations
company funds into his own outside

the steps it was taking in seeking
money it expected to recover.
April 24 and charged with transferring
in to bank accounts in New Jersey,
and to gasoline and fuel oil companies

U.S. District Court in Manhattan
prisons covered by federal wire-fraud
sentence of 20 years in prison and \$1
was scheduled for Dec. 9 to give him
sentence and restitution to Shearson.

U.S. attorney who has handled the
only person charged in the matter.

stock portfolio to care for. When he
tried to shift his attention to people,
he was sometimes rebuffed.

At one point, he contacted Ernest
W. Michel, executive vice president
of the United Jewish Appeal

in New York, to inquire about participating in volunteer work. Such community service typically is pursued by a person awaiting sentencing, in part to influence the judge.

Mr. Boskey had been a major contributor to United Jewish Appeal and had served as its fund-raising chairman in the past.

Mr. Michel gave Mr. Boskey a list of agencies supported by UJA.

"What he wanted to do was, say, in a hospital or in an old-age home," Mr. Michel said recently.

"From what I understand, they turned him down."

As the trappings of Mr. Boskey's wealth and position have slowly been stripped away over the past seven months, those who know him well believe that they see a change.

Mr. Boskey's friends say that Mr. Boskey sometimes seemed to be an extension of the elaborate technology in his office: the human component of a dazzling, money-making machine.

Built into his desk was a switchboard with 160 direct phone lines to brokers and traders who spent most of his days phoning them.

This labyrinth, rocking from one foot to the other, is falling into two or more phones cradled against his chin.

Behind him was a bright, electronic ticker tape displaying stock trades. There also was the system of screens and cameras that allowed him to survey his employees.

These days, Mr. Boskey still works behind his oversized desk when he goes to the office. But his suite is like an empty hull. The electronic ticker is gone, and so is the system of screens and cameras.

The huge switchboard in his desk remains — Mr. Boskey owns it — but only a handful of the 160 phone lines are still connected.

One person close to the Boskey organization said that as the office manager, he was not as easy on real Ivan Boskey seemed to become visible for the first time.

This person compared the transformation to a scene near the end of the film "The Wizard of Oz," when the curtain is pulled back and the fire-breathing, "great and powerful" Oz is revealed as a little boy in a carnival promoter from Kansas.

Although the 50-year-old speculator has hardly been fixed into the poorhouse, there are signs that he is struggling with his personal finances. Much of the wealth he retained after paying the government \$100 million was not readily convertible to cash. As April 15 approached, Mr. Boesky did not have enough cash available to pay his considerable tax bill.

According to documents and people familiar with the transaction, Mr. Boesky borrowed \$2 million from his wife, Sessma, in order to pay his income taxes.

Mr. Boesky's bravado has largely disappeared, people close to him say.

The new Mr. Boesky is described as a less than cheerful man, asking those around him what it takes to be happy. He has been known to ask out of the blue, "You seem to be a happy, stable person: what is it you do that makes you so?"

For all the time he spent on the telephone people close to him say, Mr. Boesky never cultivated many deep friendships.

Check Fraud at Shearson

New York Times Service

NEW YORK — Shearson Lehman Brothers has said it is trying to recover about \$19 million from Mark A. Stahl, a former senior president who has pleaded guilty to checking-account manipulation that allowed him to divert company funds into his own accounts and investments.

Shearson declined to specify the steps it was taking in seeking restitution or how much of the money it expected to recover.

Mr. Stahl, 45, was arrested April 24 and charged with transferring about \$19 million from Shearson to bank accounts in New York, Connecticut, and the Bahamas, and to gasoline and fuel oil companies in which he had invested.

He pleaded guilty Thursday in U.S. District Court in Manhattan to charges relating to four transactions covered by federal wiretapping statutes, but faces a maximum penalty of 20 years in prison and a \$5 million fine. His sentencing was scheduled for Dec. 9 to give time to try to arrange tax and other restitution to Shearson.

Herve Gourgaud, the assistant U.S. attorney who has handled the case, said that Mr. Stahl was the only person charged in the matter.

been reduced from about \$1.2 billion to about \$80 million. On May 10, the SEC formally barred Mr. Boesky from the securities business for life.

Mr. Boesky finally was without a stock portfolio to care for. We tried to shift his attention to other things, but he was sometimes rebuffed.

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For all the time he spent on the telephone, people close to him say, Mr. Boesky never cultivated many deep friendships.

NASDAQ National Market
OTC Consolidated trading for week ended Friday

[illegible]

SPORTS

SPORTS BRIEFS

World Cup Golf Revived

SAN FRANCISCO (Reuters) — The World Cup of golf, with two-man teams from 32 countries, will be revived this year in Hawaii, the International Golf Association announced. The tournament will be held November 18-21 at Kapalua, on the island of Maui. Organizational problems caused the cancellation of last year's tournament.

America's Cup Search

SAN DIEGO (AP) — The search for a committee to decide where the next America's Cup yacht races will be held is starting over because of a misunderstanding between the two controlling groups. The Sail America Foundation believed some of its nominations had been pre-approved by the San Diego Yacht Club, an arbitrator said Friday.

For the Record

Greg LeMond, who was injured in a hunting accident two months ago, will compete in the Coors bicycle race in Hawaii in August. (AP)

Andre Savard, 34, who ended his 12-year NHL career with the Quebec Nordiques in 1985 and since has coached their American Hockey League affiliate, was hired as the Nordiques' coach to replace Michel Bergeron, who quit Thursday to become coach of the New York Rangers. (AP)

Solution to Friday's Puzzle

TRAIL LABEL ADEENA
ALE AGAMA LEVIN
HARDNOSED TWEET
REPLACES PRINCE
MEALY MOUTHED
DEBARS AKITA
IT'S SALES MED
BROKENHEARTEDLY
SEW PIETY MESA
BRICE RAIDED
BREATHTAKING
LOATHE REPARTEE
LOTTIE GREENEYED
SCENT SALSABERE
HONES ASSTS SON

Successful World Cup Assures a 2d for Rugby

There will be changes, possibly including expansion of the tournament to reach more of the 100 or so countries that play the game and the introduction of a competition for first-round losers. That would mean that the eight teams that went home after the round-robin eliminations this year would still be involved until the end. They were Japan, the United States, Canada, Tonga, Italy, Romania, Zimbabwe and Argentina — the only surprise among the first-round casualties.

The All Blacks' record defeat of Italy, 70-6, on the opening day of the tournament set the pattern for some punishingly high scores against the rugby minnows. But even the cup-sided affairs, such as Scotland's 60-21 thrashing of Zimbabwe, appealed to the crowds. They got what they came for: speed and plenty of tries.

There were disappointments, for Argentina, Romania and Australia in particular, and triumphs, for France, Fiji and the United States. And there was triumph, wrestled from disaster by Wales, which lost Australia, 22-21, in the match for third place after a stunning 46-6 loss to the All Blacks in the semifinals.

Also on the negative side, there were a spate of injuries. And there was evidence for the first time the kind of tactical gerrymandering normally associated with professional sports.

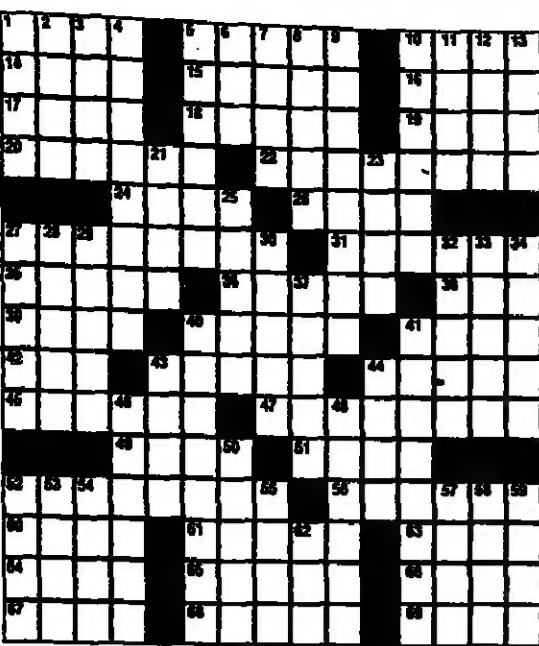
But rugby followers can relish the most successful aspect of the whole venture: The gathering of teams from so many countries for the first time, many of whom had never played each other before, is certain to strengthen the game internationally, while the media exposure and financial success will make expansion almost certain.

Meanwhile, this tournament found a



All Black captain David Kirk evaded a tackle by Patrice Lagarde, left, en route to a try during New Zealand's 29-9 defeat of France.

worthy world champion in the All Blacks. Winning six tests, all convincing, in four weeks is no minor achievement, whatever the opposition, and the All Blacks proved more than a match for



ACROSS

- 1 Look over
- 5 Israelite leader
- 10 British streetcar
- 14 Small amount
- 15 Novel by Chateaubriand
- 16 Adventure story
- 17 Brisk pace
- 18 Temper tantrums
- 19 Eternity
- 20 Diamond arbor
- 22 Ore processing plants
- 24 Year-yes!
- 25 Wading bird
- 27 Goals of the boys of summer
- 31 Mountain stream
- 35 Of birds
- 36 Satan's lure
- 38 Car part
- 39 Rod's companion
- 40 Of a region
- 41 -kiri
- 42 Business abbr.
- 43 Caskin
- 44 More tender
- 45 "A Sentimental Journey" author
- 47 What Ruth was to Gehrig

DOWN

- 48 Ireland, to Celts
- 51 Eject
- 52 Ricky Henderson specialty
- 56 Female monster
- 60 Infield covering, for short
- 61 Healed
- 62 Tree of Java
- 64 Otherwise
- 65 Sports stadium
- 66 Salamander
- 67 One's equal
- 68 Star post
- 69 Red and Coral
- 1 In — (in its original place)
- 2 Bulblike plant stem
- 3 Upon
- 4 Meta's league
- 5 Lurch
- 6 One — time
- 7 Falls behind
- 8 Fragrant resin
- 9 Dean's game
- 10 African fly
- 11 Critic's laudation
- 12 Ripener
- 13 Planet or Roman god
- 21 Pitcher Nolan
- 23 Italian money
- 25 A long look
- 27 A fashion capital
- 28 Important occurrence
- 29 Brother's daughter, e.g.
- 30 Used up
- 32 Headress for Diana
- 33 Plumed wading bird
- 34 Pitfall
- 37 Top of heads
- 40 Yankees' league
- 41 Specialty of Mantie and Maris
- 43 Plant used for blue dye
- 44 Self-satisfied
- 46 Farm machine
- 48 Without feet
- 49 Harder
- 53 Pace
- 53 O. Henry offering
- 54 Gaelic
- 55 Developed
- 57 Fencing sword
- 58 "I never —" Moor —
- 59 Dickson
- 58 East classes
- 62 Sevilla-to-Cordoba dir.

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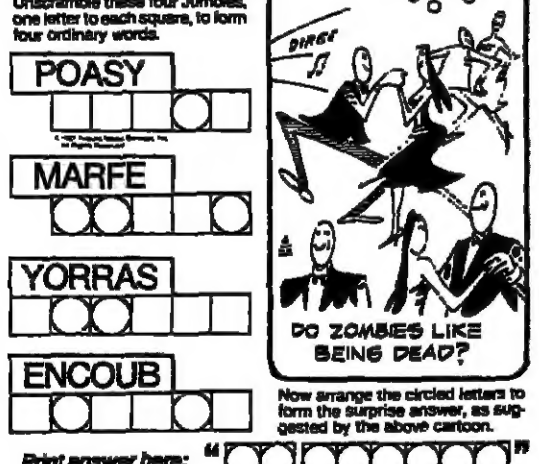
DENNIS THE MENACE



"MARGARET'S NOT ONLY PUSHY, SHE'S PULPY, TOO!"

JUMBLE

Unscramble these four jumbles, one letter to each square, to form four ordinary words.



Print answer here: _____

Friday's Jumbles AIDED CRAZY RANDO EXCITE

Answer: What they G-RIDED HIM

WEATHER

| EUROPE | HIGH | LOW | ASIA | HIGH | LOW |
|-------------|------|-----|-----------|------|-----|
| Amsterdam | 62 | 50 | Beijing | 78 | 68 |
| Berlin | 62 | 50 | Bombay | 82 | 72 |
| Brussels | 62 | 50 | Calcutta | 82 | 72 |
| Copenhagen | 62 | 50 | Colon | 82 | 72 |
| Dublin | 62 | 50 | Hankow | 82 | 72 |
| Frankfurt | 62 | 50 | Harbin | 82 | 72 |
| Geneva | 62 | 50 | Hong Kong | 82 | 72 |
| London | 62 | 50 | Kobe | 82 | 72 |
| Madrid | 62 | 50 | Manila | 82 | 72 |
| Moscow | 62 | 50 | Medan | 82 | 72 |
| Nairobi | 62 | 50 | Osaka | 82 | 72 |
| Paris | 62 | 50 | Seoul | 82 | 72 |
| Prague | 62 | 50 | Singapore | 82 | 72 |
| Rome | 62 | 50 | Taipei | 82 | 72 |
| Stockholm | 62 | 50 | Tokyo | 82 | 72 |
| Switzerland | 62 | 50 | | | |
| Vancouver | 62 | 50 | | | |
| Vienna | 62 | 50 | | | |
| Zurich | 62 | 50 | | | |

MIDDLE EAST

| ASIA | HIGH | LOW |
|-----------|------|-----|
| Amman | 62 | 50 |
| Bahia | 62 | 50 |
| Bombay | 82 | 72 |
| Calcutta | 82 | 72 |
| Colon | 82 | 72 |
| Hankow | 82 | 72 |
| Harbin | 82 | 72 |
| Hong Kong | 82 | 72 |
| Kobe | 82 | 72 |
| Manila | 82 | 72 |
| Medan | 82 | 72 |
| Osaka | 82 | 72 |
| Seoul | 82 | 72 |
| Singapore | 82 | 72 |
| Taipei | 82 | 72 |
| Tokyo | 82 | 72 |

MONDAY'S FORECAST — CHANGHAI: Partly cloudy, 72-82. HONG KONG: Partly cloudy, 72-82. KOREA: Partly cloudy, 72-82. JAPAN: Partly cloudy, 72-82. TAIWAN: Partly cloudy, 72-82. THAILAND: Partly cloudy, 72-82. VIETNAM: Partly cloudy, 72-82. CAMBODIA: Partly cloudy, 72-82. LAOS: Partly cloudy, 72-82. BURMA: Partly cloudy, 72-82. SINGAPORE: Partly cloudy, 72-82. MALAYSIA: Partly cloudy, 72-82. INDONESIA: Partly cloudy, 72-82. PHILIPPINES: Partly cloudy, 72-82. VIETNAM: Partly cloudy, 72-82. CAMBODIA: Partly cloudy, 72-82. LAOS: Partly cloudy, 72-82. BURMA: Partly cloudy, 72-82. SINGAPORE: Partly cloudy, 72-82. MALAYSIA: Partly cloudy, 72-82. INDONESIA: Partly cloudy, 72-82. PHILIPPINES: Partly cloudy, 72-82. VIETNAM: Partly cloudy, 72-82. CAMBODIA: Partly cloudy, 72-82. LAOS: Partly cloudy, 72-82. BURMA: Partly cloudy, 72-82. SINGAPORE: Partly cloudy, 72-82. MALAYSIA: Partly cloudy, 72-82. INDONESIA: Partly cloudy, 72-82. PHILIPPINES: Partly cloudy, 72-82. VIETNAM: Partly cloudy, 72-82. 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SPORTS

Watson Leads U.S. Open By 1; Rookie Ties Mark As Other Stars Falter

By Gordon S. White Jr.

New York Times Service

SAN FRANCISCO — Tom Watson, who won the U.S. Open in 1982 but has not won any tournament in the last three years, sank a 15-foot (4.5-meter) putt on the last hole Saturday to take a one-shot lead into Sunday's final round of the 87th U.S. Open.

Watson, 37, was his closest competitor among the biggest names in golf, as they were Friday when Watson was tied for the lead after two rounds with Mark Wiebe and Jack Nicklaus. Bernhard Langer, Ben Crenshaw and Jim Thorpe, among others, on his heels.

The 37-year-old Watson, who started in shaky fashion Saturday with three bogeys in the first four holes, finished with one-over-par 71 and, at 208 was a shot ahead of Scott Simpson, who carded 70, and rookie Keith Clearwater, who tied the course record with six-under-64.

During practice Wednesday, Watson and I were putting from there on the 18th green, Watson said of his 15-footer, which broke eight feet from right to left.

And we were knocking it six feet when we didn't, and 35 feet when we did. So today I was just trying to get the ball close and it went in the hole.

Watson, who beat Nicklaus by two shots in the 1982 Open after his famous chip shot into the hole at the 17th on the final day, has two Masters victories, five British Open titles and 36 victories as a pro. But he has not won since the Western Open in July 1984, when he beat Greg Norman of Australia on the fifth hole of a sudden-death playoff.

I haven't really had a very good chance to win a golf tournament this year, Watson said.

And, while many of the other mighty golfers faltered, Lennie Clements moved up with a 70 to hold fourth place at 210. Then came a bunch of big names, at 211: Seve Ballesteros of Spain, who had 68; John Mahaffey and Larry Mize, recent winner of the Masters; Crenshaw, Thorpe and Langer; and German, Curtis Strange, who carded the par-4 ninth hole with a 160-yard (146-meter) seven-iron shot, was in a group of 10 at 212.

Clearwater, a rookie, recently won his first PGA Tour title, at the Colonial National Invitational, with a tournament record-equaling 14-under-266 on one of the best courses used by the tour. Now he has three rounds of 64 this year, having posted successive 64s on the final day of the Colonial National, May 17, when two rounds had to be played in Fort Worth, Texas, because a storm wiped out the third round.

His six-birdie, no-bogey round Saturday tied the record 64 shot at Olympic by Rives McBe in the second round of the 1966 Open, which eventually was won by Billy Casper in a playoff with Arnold Palmer. This also was only the fifth round of 64 ever shot in an Open; there have been three of 63, the lowest score in Open history.

Clearwater's victory in Fort Worth almost cost him his chance to play in this Open because he stayed up until 3 A.M. celebrating. He had to get up at 5 to make his tee time for the local, or first, stage of qualifying competition for the Open.

Saturday, he birdied two of the most difficult holes on the course, 16 and 17. The par-5 16th is the longest hole on the course and, at 609 yards, one of the longest ever used in an Open. Ballesteros jokingly called it a par-6 hole.

Clearwater hit a driver off the tee, then a driver from the fairway for his second shot. He still had not

reached the green and used a wedge to get 15 feet past the cup, but sank that putt for the birdie 4.

Then there came the steeply sloped and almost unfair fairway at No. 17, the 428-yard par-4. He hit a driver to the left-center of the fairway. Like so many shots before it, this one went rolling away right.

From a difficult lie he hit a three-footer to the green and sank the 10-footer for his last of six birdies.

But just a day after 24 golfers broke par 70 to tie an Open record for sub-par scores in one round, only 10 broke par Saturday, Nicklaus and Tommy Nakajima of Japan were among those who did not. Nicklaus, a shot off the lead Friday, ballooned to 214. Nakajima, who had to take a one-stroke lost ball penalty when his second shot at 18 got stuck high in a cypress tree, carded 74 for 212. He, too, had been only a shot off the lead Friday. And, Wiebe joined those who fell back, shooting 71-214.

Watson, Nicklaus Advance

Earlier, United Press International reported:

Nicklaus and Watson thrilled the huge Olympic Club galleries on a gloomy, damp Friday by leading a charge to the top of the crowded leader board.

Watson rolled in a 50-foot putt at the par-3 third hole and posted a 65 that put him at 137 for 36 holes. Wiebe, a two-time winner in his four years on the tour, sank a 140-yard wedge shot at the 12th hole for an eagle en route to his 67.

Nicklaus, seeking a record fifth Open title and his 21st major championship, shot 68 and said, "The U.S. Open always motivates me. When I get here this week, I was as down as I've been in a long time about my game. I don't like to display my game when I'm playing poorly."

Joining him at 138 were Langer, Nakajima, Thorpe and John Cook, all veteran pros.

At 139 were Scott Simpson, Bob Eastwood, Masters champion Larry Mize and first-day leader Crenshaw, who slumped from his opening-round 67 to a 72.

Norman shot 69 and was tied at 141 with defending champion Raymond Floyd, who was trying to become the first player in 36 years to win back-to-back Opens.

Despite the ideal conditions, Ballesteros shot 75 while former British Open winner Sandy Lyle of Scotland faded with a 72. Among those missing the 36-hole cut were former Open championsuzzy Zoeller (152), Hale Irwin (150) and Andy North (148).

Watson Battles Rumors as Well as Par

By Ken Denlinger

Washington Post Service

SAN FRANCISCO — On the 14th hole Friday, he hit a tee shot 320-plus yards. On two of the next four holes, he struck iron shots so purely that only a tap from his putter was necessary to make birdie. The day was so strangely fantastic that Tom Watson could reasonably have said to himself: "Hey, you look a whole lot like Tom Watson."

For the first time in a long time.

From the Masters in 1978 through the British Open in 1983, Watson won eight major tournaments. From a little while earlier through a little while later, he won a couple of dozen other tournaments that made him a golfing millionaire four times over. But all Watson had won lately was a lot of



Tom Watson smiled after sinking a long, difficult putt on the last hole Saturday for a one-shot lead in the U.S. Open.



Mark Wiebe, the second-round co-leader with Watson, was almost treed on the first hole Saturday and shot 77.

Guetterman Pitches His First Shutout

The Associated Press

CLEVELAND — Lee Guetterman pitched a three-hitter for his first major-league shutout and fifth consecutive victory as the Seattle Mariners defeated the Cleveland Indians, 5-0, Sunday.

Guetterman struck out two and walked one in pitching Seattle to its victory in seven games. The Indians threatened in the second inning when Joe Carter led off with a single and Brock Jacoby drew a one-out walk, but Carmen Castillo lined into a double play.

Cleveland's other hits were a two-out single by Castillo in the fifth and a one-out single by Carter in the seventh.

The left-handed Guetterman, who was 0-4 in 44 major-league appearances before this season, was purchased by Seattle from Calgary of the Pacific Coast League on May 21. He has a 2.65 earned run average in his six appearances, five of them starts.

Seattle got the only run Guetterman needed in the first on singles by Phil Bradley, Scott Bradley and Jim Presley.

In the second, Rey Quinones doubled and scored on Harold Reynolds's double. Mickey Brantley singled Reynolds home and took third on a single by Phil Bradley, which chased Ken Schrom in favor of Ed Wade Berg. Brantley scored as Scott Bradley grounded out, putting Seattle ahead, 4-0.

Alvin Davis singled home Seattle's final run in the fifth.

Orioles 9, Tigers 5: In Baltimore, Tom Niedenfuer retired Detroit in the ninth, preserving the victory for Baltimore in a half-inning completion of Saturday night's suspended game. Kirk Gibson led off the Tiger's ninth with a double, went to third on a groundout and scored on Chet Lemon's sacrifice fly. But Niedenfuer got Mike Heath to ground out to end the game. Saturday's game, held up 2 hours and 23 minutes by two rain delays, was suspended because of an American League curfew, which prohibits an inning starting after 1 A.M.

Red Sox 4, Yankees 2: In Boston, rookie Ellis Burks hit a two-run homer in the eighth after Dwight Gooden tied the score with a two-run shot in the seventh, rally-

SUNDAY BASEBALL

ing Roger Clemens and Boston over New York. The Red Sox, held to two hits by Bob Tewksbury for six innings, caught up with the right-hander, who was recalled from Columbus of the Class AAA International League a day earlier.

Blue Jays 7, Brewers 6: In Toronto, Lloyd Moseby, Willie Upshaw and Fred McGriff homered and rookie Jeff Musselman earned his sixth victory with three innings of one-hit relief Sunday as the Jays held on to defeat Milwaukee. The victory enabled the Blue Jays to increase their lead over the Yankees in the AL East to a full game.

Twins 8, White Sox 6: In Minneapolis, Tom Brunansky homered and broke a 5-5 tie with a run-scoring double in the eighth to lead Minnesota over the Chicago White Sox. The two teams hit seven homers with the bases empty for the sixth time in major-league history.

Cubs 2, Pirates 1: In Chicago, Steve Carlton pitched his 328th victory in the major leagues and Brook Jacoby drove in three runs with a double and two homers to end Seattle's five-game winning streak.

The victory moved Carlton past John Clarkson into ninth place on the victory list, with Tim Lincecum, at 342, in eighth place. Carlton scattered seven hits while pitching his second complete game this season; he struck out seven to raise his career strikeout total to 4,084.

Brewers 3, Blue Jays 2: In Toronto, Jim Gantner's sacrifice fly completed a two-run seventh inning that gave Milwaukee its victory after consecutive errors by third baseman Kelly Gruber to open the inning.

Gruber's throw on Jim Packer's grounder pulled first baseman Willie Upshaw off the bag before Glenn Braggs hit a sharp grounder that bounced off Gruber's chest for a second error that left runners on first and second with none out. Bill Schroeder then grounded a single up the middle off loser Jim Key to drive in one run and Gantner's sacrifice fly broke a 2-2 tie.

Red Sox 9, Yankees 4: In Boston, Jim Rice hit a two-run single during a four-run, fifth-inning rally that backed Al Nipper's five-hit pitching against New York.

Rangers 7, Athletics 6: In Oakland, California, Scott Fletcher, Ruben Sierra and Pete Incaviglia homered for Texas.

Royals 8, Angels 4: In Anaheim, California, George Brett, Danny Tartabull and Kevin Seitzer each hit a two-run homer to back Charlie Leibrandt's eight-hit pitching for Kansas City.

The Royals won their fourth straight while the Angels lost for the fifth time in six games, all at home, despite designated hitter Brian Downing getting four hits, one a home run, off Leibrandt.

White Sox 10, Twins 5: In Minneapolis, Daryl Boston's two homers and four RBIs, three during an eight-run seventh that included seven unearned runs, helped Chicago end a five-game losing streak.

Orioles 9, Tigers 4: In Baltimore, Ken Gerhart drove in three runs with two homers against Detroit before the game was suspended after eight innings because of the AL curfew.

The game, the first suspended at Memorial Stadium since Aug. 31, 1978, was delayed by rain for 58 minutes at the start and for 1 hour, 25 minutes in the bottom of the first.

The Cubs' second baseman, Paul Nove, got to see his throw to first complete a double play as he was grounded by the Pirates' Jim Morrison. Pittsburgh won Friday's game, 4-0.

Astros Beat Dodgers on 2 Homers, Scott's 3-Hitter

United Press International

HOUSTON — Mike Scott pitched a three-hitter and Billy Hatcher and Kevin Bass homered Saturday to give the Houston Astros a 3-2 victory over the Los Angeles Dodgers.

Scott, 3-3, struck out nine to take over the major-league lead with 125. It was his fourth complete game this season.

I was able to establish my split-fingered pitch early today," he said, having joined Chicago's Rick Sutcliffe and the National League's Neal Heston as the National League's only nine-pitchers.

I don't feel I'm in as good a groove as the end of last year, but I'm pretty satisfied with the way I'm pitching."

With the Astros trailing, 2-1, Glenn Davis walked with one out in the sixth and Bass hit a one-pitch into the right-field seats for his seventh homer.

Dave Anderson, who began the game batting .455 against the Astros, hit Scott's first pitch over the left-field fence for his first homer this season. The Astros tied in the third when Hatcher homered.

Braves 8, Reds 6: In Atlanta, Dale Murphy hit his NL-leading 22d homer, a three-run shot in the third inning against Cincinnati, dur-

ing a game that saw seven homers.

Pirates 6, Cubs 2: In Chicago, Mike Dunne pitched his third straight complete game while Barry Bonds and Jim Morrison each hit two home runs for Pittsburgh. Dunne scattered seven hits, struck out four and retired 15 consecutive batters before giving up a two-out single to Dave Martinez in the eighth inning.

Mets 3, Phillies 2: In New York, Dwight Gooden pitched a five-hitter and Kevin McReynolds's sacrifice fly, scoring pinch runner Lenny Dykstra in the ninth, beat Philadelphia. Gary Carter led off the inning by bouncing a single off the glove of reliever Kent Tekulve. Dykstra ran for Carter and Darryl Strawberry hit a sharp grounder directly to shortstop Steve Jeltz, who allowed the ball to go through to center field as Dykstra raced to third.

Expos 7, Cardinals 5: In St. Louis, Missouri, Jeff Reed's one-out double scored Andres Galaraga, who had led off the Montreal ninth with a triple, then Reed scored on Mitch Webster's single.

It was Reed's sixth RBI this year, but his fifth in four games against the Cardinals.

Padres 10, Giants 4: In San Diego, Garry Templeton's two-run

homer, his first since last June 30, capped a three-run seventh inning against San Francisco.

Indians 9, Mariners 2: In the American League, in Cleveland, Steve Carlton posted his 328th victory in the major leagues and Brook Jacoby drove in three runs with a double and two homers to end Seattle's five-game winning streak.

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Wet or Not, Wimbledon Is Set to Begin

Becker Well Favored Again, but Women's Field Appears Ripe for Upset

By John Feinstein

Washington Post Service

WIMBLEDON — For 50 weeks, they prepare. For two weeks, they play. Sunday, the last of the equipment was trucked in, the wet grass courts were locked up and the last point applied around the grounds.

In 24 hours, the play would begin at the All England championships. Not at 2 P.M. precisely, as tradition dictated for so many years, but at 12:30 P.M. Several years ago, the All England Club decided it needed the extra time to complete play each day and, much to the horror of many, bowed to reality.

But on Centre Court and Court 1 at Wimbledon, 2 P.M. remains sacred and so it will be 90 minutes after matches such as Todd Witsken versus Steven Shaw have begun that Boris Becker will walk to Centre Court for the traditional opener.

Becker, the two-time defending champion, is the top seed and the favorite to begin Wimbledon's second century the way he ended it's first, by winning the men's title.

Once, this first day was reserved strictly for the men. That too has changed. Sixteen women's matches will be played Monday, four involving seeded players. The highest seeded woman to play — and the only one on a show court — will be Gabriela Sabatini, the seventh seed. She opens against Barbara Gerken on Court 1 right after Ivan Lendl, the No. 1 player in the world, plays his first match against qualifier Christian Smeets.

All the other traditions are in place: Becker playing at 2 P.M.; women's defending champion

Martina Navratilova playing her first match Tuesday at 2 against Claudia Porwicz of West Germany and, naturally, the rain.

Before Sunday, when the sun popped in and out of the clouds, it had rained here every day in June. There will be an interesting twist this year: the women have no clear-cut favorite. The men do. This is a reversal from the recent past, when Navratilova and Chris Evert were the only two women given a reasonable chance of winning.

Now, with Navratilova — who has won seven times, five in a row — winless in 1987 and Evert a semifinal loser in her last three Grand Slam tournaments, the two grand dames are suddenly vulnerable. But, unlike the French Open, where Steffi Graf was poised to step into the breach, that is not so here.

Graf is the second seed and does have a favorable draw. But she has not played a grass court tournament since competing here two years ago and, although she has not done poorly on grass, she is not the confident player that she is on clay or a hard court.

Still, she has won 39 straight matches this year and with Navratilova and Evert in the top half of the draw, she certainly has a chance to go far at Wimbledon. So do Hana Mandlikova and Pam Shriver. They are in the lower half of the draw along with Graf and each must see this as a golden chance.

Shriver, who was stunned here in the first round last year, this time comes fit and ready but questioning herself at crucial moments just as she always has. Saturday, at Eastbourne, she had Navratilova all but

beaten, leading by 2-0 and 40-0 in the third set. Then she missed an easy backhand volley, went into a funk and, kicking and screaming, lost the match. "I just need a little bit of belief in myself," Shriver said. "I know I have the talent on grass."

She will never have a better chance. Mandlikova would certainly be a tough quarterfinal opponent but a semifinal against Graf or Sabatini or an upset would be welcome.

"It would certainly be a great birthday present," said Shriver, who turns 25 on July 3, the day of the women's final. "I just want to win one of these before I say so long."

Lendl feels about the same way. He has won five majors — three French and two U.S. Opens — but last year was his first Wimbledon final and Becker wiped him out.

On grass, Becker is certainly the favorite, especially with John McEnroe home resuing a sore back. Becker's half of the draw has Mats Wilander, murder on clay but eminently beatable on grass; the venerable Jimmy Connors, who is playing well enough to make some noise; and Pat Cash, a legitimate dark horse who gained the semifinals in 1984 and the quarters last year.

Lendl's half includes Stefan Edberg, who twice has won the Australian Open but has never played well here; Miloslav Mezir; Andre Gomez; the enigmatic Henri Leconte and Kevin Curren. Curren was the losing finalist to Becker in 1985 and Leconte made the semis before losing to Becker last year. In 1985, he upset Lendl in the round of 16.

But, as always happens, the seeds won't hold. There will be upset just as certainly as there will be rain.

SCOREBOARD

Baseball

Friday's Line Scores

AMERICAN LEAGUE

Toronto 216 220 220-7 2 1

Cleveland 216 220 220-4 2 1

Los Angeles and Brooklyn: Nippon Vendobers

Major League Standings

(Through Saturday's Games)

AMERICAN LEAGUE

East

Toronto 41 25 415 2

New York 34 25 418 2

Detroit 35 29 447 8

Milwaukee 35 29 448 11

Boston 36 27 448 11

Los Angeles 37 29 448 13

Cleveland 35 41 379 16

West

Minnesota 39 30 457 1

Kansas City 34 30 458 2

Chicago 34 30 458 2

Seattle 34 30 458 2

Oakland 34 30 458 2

California 34 30 458 2

Texas 34 30 458 2

Houston 34 30 458 2

St. Louis 34 30 458 2

Pittsburgh 34 30 458 2

Cincinnati 34 30 458 2

Philadelphia 34 30 458 2

Washington 34 30 458 2

New York 34 30 458 2

Los Angeles 34 30 458 2

San Francisco 34 30 458 2

Seattle 34 30 458 2

Portland 34 30 458 2

San Diego 34 30 458 2

San Jose 34 30 458 2

San Francisco 34 30 458 2

San Jose 34 30 458 2

Baseball

Saturday's Line Scores

AMERICAN LEAGUE

New York 301 301 301-4 5 1

Boston 301 301 301-4 5 1

Detroit 301 301 301-4 5 1

Cleveland 301 301 301-4 5 1

Los Angeles 301 301 301-4 5 1

Milwaukee 301 301 301-4 5 1

Minnesota 301 301 301-4 5 1

Kansas City 301 301 301-4 5 1

Chicago 301 301 301-4 5 1

St. Louis 301 301 301-4 5 1

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Los Angeles 301 301 301-4 5 1

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U.S. Open Golf

